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Port St Johns Municipality  
Consolidated Annual Financial Statements  
for the year ended 30 June, 2016

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **General Information**

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### **Members of Council**

Mayor	Councillor Langa P
Speaker	Councillor Khukula T
Chief Whip	Councillor Nokhanda B N
Councillors	Councillor Bokwe N.F Councillor Cube Z.H Councillor Diko N.F Councillor Fono K. M Councillor Fono N.C Councillor Kotana M.P.J Councillor Lobi J.S Councillor Mabovana M.S Councillor Madini D. V Councillor Madolo S Councillor Maqina Z Councillor Mbotshwa N Councillor Mcekisa V .N Councillor Mfiki N Councillor Mhlabeni Z Councillor Mncwati E.Z Councillor Moni X Councillor Mtiki Z Councillor Mtuku N.B Councillor Mzaza S Councillor Ndakayi N Councillor Ndamase L Councillor Nduku C Councillor Namagedeshe B Councillor Nompaka T Councillor Rolobile L Councillor Sophotela M.N Councillor Sotshongaye S.T Councillor Tani N Councillor Tayi H.S Councillor Tshitshiliza N Councillor Tshotho G Councillor Veni M Councillor Zweni R. M

**Grading of local authority**

Grade 2

**Chief Finance Officer (CFO)**

Mrs P Gwana

**Accounting Officer**

Mr N Pakade

**Business address**

257 Main Street  
Port St Johns  
5120

**Postal address**

P O Box 2

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **General Information**

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Port St Johns

5120

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

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The reports and statements set out below comprise the consolidated annual financial statements presented to the provincial legislature:

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### **Abbreviations**

DSRAC	Department of Sports, Recreation, Arts and Culture
EPWP	Expanded Public Works Programme.
GRAP	Generally Recognised Accounting Practice
LG SETA	Local Government Skills Education Training Authority
MFMA	Municipal Finance Management Act 56 of 2003
MIG	Municipal Infrastructure Grant
IPSAS	Institute of Public Sector Accounting Standards
PSJDA	Port St Johns Development Agency
SALGA	South African Local Goverment Association
MSIG	Municipal Systems Improvement Grant

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Officer's Responsibilities and Approval**

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the consolidated annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the consolidated annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the consolidated annual financial statements and was given unrestricted access to all financial records and related data.

The consolidated annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The consolidated annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the economic entity and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the economic entity and all employees are required to maintain the highest ethical standards in ensuring the economic entity's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the economic entity is on identifying, assessing, managing and monitoring all known forms of risk across the economic entity. While operating risk cannot be fully eliminated, the economic entity endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the consolidated annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has considered the municipality's cash flow budget for the year to 30 June, 2017 during budgeting process, and in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The consolidated annual financial statements set out on pages 5 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September, 2016 and were signed on its behalf by:

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**Mr N Pakade  
Municipal Manager**

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Officer's Report**

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The accounting officer submits his report for the year ended 30 June, 2016.

### **1. Review of activities**

#### **Main business and operations**

The municipality is engaged in local governance activites , which includes planning and promotion of intergrated development planning, land, economic and environmental development and supplying of the following services to the community; rates and refuse removal and operates principally in South Africa. .

The operating results and state of affairs of the municipality are fully set out in the attached consolidated annual financial statements and do not in our opinion require any further comment.

### **2. Going concern**

We draw attention to the fact that at 30 June, 2016, the municipality had accumulated surplus of R 366,907,650 and that the municipality's total assets exceed its liabilities by R 366,907,650.

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

### **3. Subsequent events**

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

### **4. Accounting Officer**

The Accounting Officer of the municipality during the year and at the date of this report is as follows:

Name	Nationality	Changes
Mr N Pakade	South African	Appointed

### **5. Bankers**

The municipality banks with ABSA limited

### **6. Auditors**

Auditor General will continue in office for the next financial period.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Financial Position as at 30 June, 2016

Figures in Rand	Note(s)	Economic entity		Controlling entity		
		2016	2015 Restated*	2016	2015 Restated*	
<b>Assets</b>						
Current Assets						
Cash and cash equivalents	2	37,281,190	9,692,341	36,857,627	9,008,119	
Consumer debtors	3	743,062	663,146	743,062	663,146	
Receivables from non-exchange transactions	4	3,478,859	1,764,734	3,478,859	1,761,903	
VAT receivable	5	439,599	14,571,230	5,399,065	19,625,583	
Other debtors from exchange transactions	6	816,891	531,385	816,891	531,385	
Inventories	7	1,457,645	520,855	1,457,645	520,855	
		<b>44,217,246</b>	<b>27,743,691</b>	<b>48,753,149</b>	<b>32,110,991</b>	
Non-Current Assets						
Investment property	8	11,461,003	11,461,003	11,461,003	11,461,003	
Property, plant and equipment	9	359,951,953	357,099,258	359,627,448	356,695,877	
		<b>371,412,956</b>	<b>368,560,261</b>	<b>371,088,451</b>	<b>368,156,880</b>	
Non-Current Assets		371,412,956	368,560,261	371,088,451	368,156,880	
Current Assets		44,217,246	27,743,691	48,753,149	32,110,991	
<b>Total Assets</b>		<b>415,630,202</b>	<b>396,303,952</b>	<b>419,841,600</b>	<b>400,267,871</b>	
<b>Liabilities</b>						
Current Liabilities						
Payables from exchange transactions	11	22,000,848	26,316,152	20,238,324	24,581,010	
Finance lease obligation	12	10,532,048	11,526,747	10,532,048	11,526,747	
Unspent Conditional grant	13	2,798,257	2,251,634	546,623	-	
Employee benefit obligation	15	230,325	509,000	230,325	509,000	
Provisions	16	4,089,708	3,359,854	-	-	
Consumer deposits		137,010	129,635	61,000	61,000	
Bank overdraft	2	-	45,125	-	45,125	
		<b>39,788,196</b>	<b>44,138,147</b>	<b>31,608,320</b>	<b>36,722,882</b>	
Non-Current Liabilities						
Other financial liabilities	10	210,578	286,588	-	-	
Finance lease obligation	12	1,457	100,244	1,457	100,244	
Operating lease liability	14	1,729,553	1,597,514	1,729,553	1,597,514	
Employee benefit obligation	15	1,898,031	1,472,000	1,898,031	1,472,000	
Provisions	16	5,094,735	4,801,824	5,094,735	4,801,824	
		<b>8,934,354</b>	<b>8,258,170</b>	<b>8,723,776</b>	<b>7,971,582</b>	
Non-Current Liabilities		8,934,354	8,258,170	8,723,776	7,971,582	
Current Liabilities		39,788,196	44,138,147	31,608,320	36,722,882	
<b>Total Liabilities</b>		<b>48,722,550</b>	<b>52,396,317</b>	<b>40,332,096</b>	<b>44,694,464</b>	
Assets		415,630,202	396,303,952	419,841,600	400,267,871	
Liabilities		(48,722,550)	(52,396,317)	(40,332,096)	(44,694,464)	
<b>Net Assets</b>		<b>366,907,652</b>	<b>343,907,635</b>	<b>379,509,504</b>	<b>355,573,407</b>	
Accumulated surplus	17	366,907,650	343,907,634	379,509,504	355,573,408	

\* See Note 39

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Financial Performance

Figures in Rand	Note(s)	Economic entity		Controlling entity		
		2016	2015 Restated*	2016	2015 Restated*	
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Interest received - investment	19	1,650,441	808,187	1,650,441	808,187	
Service charges	20	755,693	726,277	755,693	726,277	
Rental of facilities and equipment	21	34,025	58,056	34,025	58,056	
Interest received (trading)		2,946,910	2,551,169	2,946,098	2,550,539	
Other income	22	559,520	292,457	559,520	292,457	
Other income 3		-	200	-	-	
<b>Total revenue from exchange transactions</b>		<b>5,946,589</b>	<b>4,436,346</b>	<b>5,945,777</b>	<b>4,435,516</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	24	6,741,055	3,962,250	6,741,055	3,962,250	
<b>Transfer revenue</b>						
Government grants & subsidies	25	149,272,297	143,535,495	149,272,297	143,535,495	
Public contributions and donations		2,500	724,495	2,500	724,495	
Fines, Penalties and Forfeits		290,100	285,650	290,100	285,650	
Licences and permit		45,444	24,267	45,444	24,267	
<b>Total revenue from non-exchange transactions</b>		<b>156,351,396</b>	<b>148,532,157</b>	<b>156,351,396</b>	<b>148,532,157</b>	
<b>Total revenue</b>	18	5,946,589 156,351,396 <b>162,297,985</b>	4,436,346 148,532,157 <b>152,968,503</b>	5,945,777 156,351,396 <b>162,297,173</b>	4,435,516 148,532,157 <b>152,967,673</b>	
<b>Expenditure</b>						
Employee related costs	26	(50,266,254)	(45,244,429)	(45,982,869)	(42,704,144)	
Remuneration of councillors and directors	27	(11,345,863)	(9,911,872)	(11,084,771)	(9,788,921)	
Debt Impairment	28	(1,920,263)	(3,848,026)	(1,920,263)	(3,848,026)	
Lease rentals on operating lease		(408,686)	(306,585)	(408,686)	(306,585)	
Depreciation and amortisation	29	(27,676,690)	(30,207,634)	(27,567,574)	(30,112,231)	
Finance costs	30	(1,704,344)	(3,682,923)	(768,721)	(2,424,987)	
Repairs and maintenance		(2,159,876)	(2,320,013)	(2,153,292)	(2,285,458)	
Contracted services	31	(14,024,353)	(4,425,519)	(14,024,353)	(4,425,519)	
Grants and subsidies paid	32	-	(618,114)	(6,043,566)	(5,033,220)	
Loss on disposal of assets		(17,155)	(263,526)	(17,155)	(263,526)	
General Expenses	33	(29,823,725)	(39,445,723)	(28,461,905)	(37,939,359)	
<b>Total expenditure</b>		<b>(139,347,209)</b>	<b>(140,274,364)</b>	<b>(138,433,155)</b>	<b>(139,131,976)</b>	
Total revenue		162,297,985	152,968,503	162,297,173	152,967,673	
Total expenditure		(139,347,209)	(140,274,364)	(138,433,155)	(139,131,976)	
<b>Operating surplus</b>		<b>22,950,776</b>	<b>12,694,139</b>	<b>23,864,018</b>	<b>13,835,697</b>	
Operating surplus/deficit		-	-	-	-	
Surplus before taxation		22,950,776	12,694,139	23,864,018	13,835,697	
Taxation		-	-	-	-	
<b>Surplus for the year</b>		<b>22,950,776</b>	<b>12,694,139</b>	<b>23,864,018</b>	<b>13,835,697</b>	

\* See Note 39

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Economic entity</b>		
<b>Balance at 1 July, 2014</b>	<b>331,639,514</b>	<b>331,639,514</b>
Changes in net assets		
Prior year adjustments	(426,019)	(426,019)
Net income (losses) recognised directly in net assets	(426,019)	(426,019)
Surplus for the year	12,694,139	12,694,139
Total recognised income and expenses for the year	12,268,120	12,268,120
Total changes	12,268,120	12,268,120
<b>Restated* Balance at 1 July, 2015</b>	<b>312,453,096</b>	<b>312,453,096</b>
Changes in net assets		
Prior year adjustment	31,431,688	31,431,688
Net income (losses) recognised directly in net assets	31,431,688	31,431,688
Surplus for the year	22,950,776	22,950,776
Total recognised income and expenses for the year	54,382,464	54,382,464
Prior year adjustment	72,090	72,090
Total changes	54,454,554	54,454,554
<b>Balance at 30 June, 2016</b>	<b>366,907,650</b>	<b>366,907,650</b>
Note(s)		
<b>Controlling entity</b>		
<b>Balance at 1 July, 2014</b>	<b>342,163,730</b>	<b>342,163,730</b>
Changes in net assets		
Prior year adjustments	(426,019)	(426,019)
Net income (losses) recognised directly in net assets	(426,019)	(426,019)
Surplus for the year	13,835,697	13,835,697
Total recognised income and expenses for the year	13,409,678	13,409,678
Total changes	13,409,678	13,409,678
<b>Restated* Balance at 1 July, 2015</b>	<b>324,141,715</b>	<b>324,141,715</b>
Changes in net assets		
Prior year adjustment	31,431,688	31,431,688
Net income (losses) recognised directly in net assets	31,431,688	31,431,688
Surplus for the year	23,864,018	23,864,018
Total recognised income and expenses for the year	55,295,706	55,295,706
Prior year adjustment input VAT	72,083	72,083
Total changes	55,367,789	55,367,789
<b>Balance at 30 June, 2016</b>	<b>379,509,504</b>	<b>379,509,504</b>
Note(s)		

\* See Note 39

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Cash Flow Statement

Figures in Rand	Note(s)	Economic entity		Controlling entity		
		2016	2015 Restated*	2016	2015 Restated*	
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Licences and permits		51,803	28,879	51,803	28,879	
Service charges		260,231	317,048	260,231	317,048	
Grants and subsidies		149,933,340	130,318,340	149,933,340	130,318,340	
Interest income		1,287,128	808,817	1,286,316	808,187	
VAT refunds		20,350,148	667,233	20,350,148	667,233	
Interest received on outstanding debtors		497,290	249,914	497,290	249,914	
Other receipts		2,874,490	283,063	2,874,490	282,863	
Rental of facilities and equipment		38,940	63,610	38,940	63,610	
Traffic fines		51,630	41,950	51,630	41,950	
Rates		5,112,527	2,134,666	5,112,527	2,134,666	
		180,457,527	134,913,520	180,456,715	134,912,690	
<b>Payments</b>						
and remuneration of councillors		(69,137,960)	(57,771,918)	(63,003,961)	(54,203,273)	
Suppliers		(34,886,343)	(27,215,405)	(34,886,343)	(27,215,405)	
Finance costs		(15,187,194)	(7,151,216)	(15,186,357)	(7,095,943)	
Rental of equipment		(426,260)	(319,961)	(426,260)	(319,961)	
Repairs and maintenance		(3,286,509)	(1,587,234)	(3,286,506)	(1,587,234)	
Grants and subsidies		(846,099)	(618,116)	(6,889,665)	(5,033,222)	
		(123,770,365)	(94,663,850)	(123,679,092)	(95,455,038)	
Total receipts		180,457,527	134,913,520	180,456,715	134,912,690	
Total payments		(123,770,365)	(94,663,850)	(123,679,092)	(95,455,038)	
<b>Net cash flows from operating activities</b>	34	<b>56,687,162</b>	<b>40,249,670</b>	<b>56,777,623</b>	<b>39,457,652</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	9	(20,331,258)	(25,743,508)	(20,301,017)	(25,630,708)	
Proceeds from sale of property, plant and equipment	9	466,499	-	466,499	-	
<b>Net cash flows from investing activities</b>		<b>(19,864,759)</b>	<b>(25,743,508)</b>	<b>(19,834,518)</b>	<b>(25,630,708)</b>	
<b>Cash flows from financing activities</b>						
Finance lease payments		(9,188,431)	(19,559,692)	(9,048,471)	(19,506,261)	
Movement in finance liability		-	(10,300)	-	-	
<b>Net cash flows from financing activities</b>		<b>(9,188,431)</b>	<b>(19,569,992)</b>	<b>(9,048,471)</b>	<b>(19,506,261)</b>	
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>27,633,972</b>	<b>(5,063,830)</b>	<b>27,894,634</b>	<b>(5,679,317)</b>	
Cash and cash equivalents at the beginning of the year		9,647,216	14,711,046	8,962,994	14,642,311	
<b>Cash and cash equivalents at the end of the year</b>	2	<b>37,281,188</b>	<b>9,647,216</b>	<b>36,857,628</b>	<b>8,962,994</b>	

\* See Note 39

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Economic entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1,816,672	(1,000,000)	<b>816,672</b>	755,693	<b>(60,979)</b>	
Rental of facilities and equipment	-	26,000	<b>26,000</b>	34,025	<b>8,025</b>	a
Interest received (trading)	2,000,000	1,000,000	<b>3,000,000</b>	2,946,098	<b>(53,902)</b>	b
Other income	412,405	1,327,595	<b>1,740,000</b>	559,520	<b>(1,180,480)</b>	e
Interest received - investment	300,000	1,200,000	<b>1,500,000</b>	1,651,253	<b>151,253</b>	
<b>Total revenue from exchange transactions</b>	<b>4,529,077</b>	<b>2,553,595</b>	<b>7,082,672</b>	<b>5,946,589</b>	<b>(1,136,083)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	10,051,674	(2,000,003)	<b>8,051,671</b>	6,741,055	<b>(1,310,616)</b>	o
<b>Transfer revenue</b>						
Government grants & subsidies	157,795,000	(2,976,000)	<b>154,819,000</b>	149,272,297	<b>(5,546,703)</b>	
Public contributions and donations	-	-	-	2,500	<b>2,500</b>	c
Fines, Penalties and Forfeits	45,175	304,825	<b>350,000</b>	290,100	<b>(59,900)</b>	f
Licences and permits	3,044,087	(2,994,087)	<b>50,000</b>	45,444	<b>(4,556)</b>	d
<b>Total revenue from non-exchange transactions</b>	<b>170,935,936</b>	<b>(7,665,265)</b>	<b>163,270,671</b>	<b>156,351,396</b>	<b>(6,919,275)</b>	
'Total revenue from exchange transactions'	4,529,077	2,553,595	<b>7,082,672</b>	5,946,589	<b>(1,136,083)</b>	
'Total revenue from non-exchange transactions'	170,935,936	(7,665,265)	<b>163,270,671</b>	156,351,396	<b>(6,919,275)</b>	p
<b>Total revenue</b>	<b>175,465,013</b>	<b>(5,111,670)</b>	<b>170,353,343</b>	<b>162,297,985</b>	<b>(8,055,358)</b>	
<b>Expenditure</b>						
Personnel	(51,298,190)	(24,997,062)	<b>(76,295,252)</b>	(50,266,254)	<b>26,028,998</b>	q
Remuneration of councillors	(12,694,203)	(96,335)	<b>(12,790,538)</b>	(11,345,863)	<b>1,444,675</b>	g
Depreciation and amortisation	(9,577,988)	(43,547,012)	<b>(53,125,000)</b>	(27,676,690)	<b>25,448,310</b>	l
Finance costs	(100,000)	(7,290,000)	<b>(7,390,000)</b>	(1,704,344)	<b>5,685,656</b>	k
Lease rentals on operating lease	(179,449)	(1,423,370)	<b>(1,602,819)</b>	(408,686)	<b>1,194,133</b>	n
Debt impairment	(5,240,000)	2,590,000	<b>(2,650,000)</b>	(1,920,263)	<b>729,737</b>	h
Repairs and maintenance	(6,108,202)	(719,103)	<b>(6,827,305)</b>	(2,159,876)	<b>4,667,429</b>	i
Contracted Services	(1,059,000)	(25,471,000)	<b>(26,530,000)</b>	(14,024,353)	<b>12,505,647</b>	k
Transfers and Subsidies	(3,842,000)	(6,250,000)	<b>(10,092,000)</b>	-	<b>10,092,000</b>	
Reserves	(344,960)	274,960	<b>(70,000)</b>	-	<b>70,000</b>	
General Expenses	(45,509,198)	(11,687,921)	<b>(57,197,119)</b>	(29,823,725)	<b>27,373,394</b>	j
<b>Total expenditure</b>	<b>(135,953,190)</b>	<b>(118,616,843)</b>	<b>(254,570,033)</b>	<b>(139,330,054)</b>	<b>115,239,979</b>	
<b>Operating surplus</b>	175,465,013	(5,111,670)	<b>170,353,343</b>	162,297,985	<b>(8,055,358)</b>	
	(135,953,190)	(118,616,843)	<b>(254,570,033)</b>	(139,330,054)	<b>115,239,979</b>	
<b>Operating surplus</b>	<b>39,511,823</b>	<b>(123,728,513)</b>	<b>(84,216,690)</b>	<b>22,967,931</b>	<b>107,184,621</b>	

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Loss on disposal of assets and liabilities	-	(20,000)	<b>(20,000)</b>	(17,155)	<b>2,845</b>	
	39,511,823	(123,728,513)	<b>(84,216,690)</b>	22,967,931	<b>107,184,621</b>	
<b>Surplus before taxation</b>	<b>39,511,823</b>	<b>(123,748,513)</b>	<b>(84,236,690)</b>	<b>22,950,776</b>	<b>107,187,466</b>	
Deficit before taxation	39,511,823	(123,748,513)	<b>(84,236,690)</b>	22,950,776	<b>107,187,466</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>39,511,823</b>	<b>(123,748,513)</b>	<b>(84,236,690)</b>	<b>22,950,776</b>	<b>107,187,466</b>	

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
<b>Controlling entity</b>						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	1,816,672	(1,000,000)	<b>816,672</b>	755,693	<b>(60,979)</b>	
Rental of facilities and equipment	-	26,000	<b>26,000</b>	34,025	<b>8,025</b>	a
Interest received (trading)	2,000,000	1,000,000	<b>3,000,000</b>	2,946,098	<b>(53,902)</b>	b
Other income - (rollup)	412,405	205,595	<b>618,000</b>	559,520	<b>(58,480)</b>	e
Interest received - investment	300,000	1,200,000	<b>1,500,000</b>	1,650,441	<b>150,441</b>	
<b>Total revenue from exchange transactions</b>	<b>4,529,077</b>	<b>1,431,595</b>	<b>5,960,672</b>	<b>5,945,777</b>	<b>(14,895)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	10,051,674	(2,000,003)	<b>8,051,671</b>	6,741,055	<b>(1,310,616)</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	157,795,000	(976,080)	<b>156,818,920</b>	149,272,297	<b>(7,546,623)</b>	
Public contributions and donations	-	-	-	2,500	<b>2,500</b>	c
Fines, Penalties and Forfeits	45,175	304,825	<b>350,000</b>	290,100	<b>(59,900)</b>	f
Licences and Permits	3,044,087	(2,994,087)	<b>50,000</b>	45,444	<b>(4,556)</b>	d
<b>Total revenue from non-exchange transactions</b>	<b>170,935,936</b>	<b>(5,665,345)</b>	<b>165,270,591</b>	<b>156,351,396</b>	<b>(8,919,195)</b>	
'Total revenue from exchange transactions'	4,529,077	1,431,595	<b>5,960,672</b>	5,945,777	<b>(14,895)</b>	
'Total revenue from non-exchange transactions'	170,935,936	(5,665,345)	<b>165,270,591</b>	156,351,396	<b>(8,919,195)</b>	
<b>Total revenue</b>	<b>175,465,013</b>	<b>(4,233,750)</b>	<b>171,231,263</b>	<b>162,297,173</b>	<b>(8,934,090)</b>	
<b>Expenditure</b>						
Personnel	(48,880,394)	(13,982,779)	<b>(62,863,173)</b>	(45,982,869)	<b>16,880,304</b>	
Remuneration of councillors	(12,476,203)	-	<b>(12,476,203)</b>	(11,084,771)	<b>1,391,432</b>	g
Depreciation and amortisation	(9,457,988)	(44,347,012)	<b>(53,805,000)</b>	(27,567,574)	<b>26,237,426</b>	k
Finance costs	(50,000)	(7,240,000)	<b>(7,290,000)</b>	(768,721)	<b>6,521,279</b>	
Lease rentals on operating lease	(179,449)	(1,423,370)	<b>(1,602,819)</b>	(408,686)	<b>1,194,133</b>	
Debt impairment	(5,240,000)	1,540,000	<b>(3,700,000)</b>	(1,920,263)	<b>1,779,737</b>	h
Repairs and maintenance	(6,008,202)	(779,103)	<b>(6,787,305)</b>	(2,153,292)	<b>4,634,013</b>	i
Contracted Services	(1,059,000)	(25,471,000)	<b>(26,530,000)</b>	(14,024,353)	<b>12,505,647</b>	k
Transfers and Subsidies	(3,842,000)	(6,250,000)	<b>(10,092,000)</b>	(6,043,566)	<b>4,048,434</b>	
Reserves	-	(70,000)	<b>(70,000)</b>	-	<b>70,000</b>	
General Expenses	(43,680,994)	(9,546,557)	<b>(53,227,551)</b>	(28,461,905)	<b>24,765,646</b>	j
<b>Total expenditure</b>	<b>(130,874,230)</b>	<b>(107,569,821)</b>	<b>(238,444,051)</b>	<b>(138,416,000)</b>	<b>100,028,051</b>	
<b>Operating surplus</b>	175,465,013	(4,233,750)	<b>171,231,263</b>	162,297,173	<b>(8,934,090)</b>	
	(130,874,230)	(107,569,821)	<b>(238,444,051)</b>	(138,416,000)	<b>100,028,051</b>	
	<b>44,590,783</b>	<b>(111,803,571)</b>	<b>(67,212,788)</b>	<b>23,881,173</b>	<b>91,093,961</b>	

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Figures in Rand</b>						
Loss on disposal of assets	-	(20,000)	(20,000)	(17,155)	<b>2,845</b>	
	44,590,783	(111,803,571)	(67,212,788)	23,881,173	<b>91,093,961</b>	
<b>Surplus before taxation</b>	-	(20,000)	(20,000)	(17,155)	<b>2,845</b>	
Deficit before taxation	44,590,783	(111,823,571)	(67,232,788)	23,864,018	<b>91,096,806</b>	
Taxation	-	-	-	-	-	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>44,590,783</b>	<b>(111,823,571)</b>	<b>(67,232,788)</b>	<b>23,864,018</b>	<b>91,096,806</b>	

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1. Presentation of Consolidated Annual Financial Statements**

The consolidated annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These consolidated annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

#### **1.1 Presentation currency**

These consolidated annual financial statements are presented in South African Rand, which is the functional currency of the economic entity.

#### **1.2 Going concern assumption**

These consolidated annual financial statements have been prepared based on the expectation that the economic entity will continue to operate as a going concern for at least the next 12 months.

#### **1.3 Significant judgements and sources of estimation uncertainty**

In preparing the consolidated annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the consolidated annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the consolidated annual financial statements. Significant judgements include:

##### **Trade receivables / Held to maturity investments and/or loans and receivables**

The economic entity assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.3 Significant judgements and sources of estimation uncertainty (continued)**

#### **Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The economic entity reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as [list economic factors such as exchange rates inflation interest].

#### **Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 16 - Provisions.

#### **Useful lives of waste and water network and other assets**

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### **Post retirement benefits**

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The economic entity determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the economic entity considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 15.

#### **Effective interest rate**

The economic entity used the prime interest rate to discount future cash flows.

#### **Allowance for impairment**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

### **1.4 Investment property**

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.4 Investment property (continued)**

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the economic entity, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, are as follows:

### **1.5 Property, plant and equipment**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the economic entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.5 Property, plant and equipment (continued)**

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for X,X and X which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Accounting Policies

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### 1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings	Straight line	30 years
Community assets	Straight line	30 years
Plant and machinery	Straight line	2-15 years
Furniture and fixtures	Straight line	7-10 years
Motor vehicles	Straight line	5-10 years
Office equipment	Straight line	3-7 years
Computer Equipment	Straight line	3 years
Bins and containers	Straight line	5 years
Cellular equipment	Straight line	2 years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the economic entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.6 Site restoration and dismantling cost (continued)**

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### **1.7 Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### **Classification**

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

<b>Class</b>	<b>Category</b>
Loan	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Provisions	Financial liability measured at amortised cost

### **Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

### **Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an economic entity calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### **Gains and losses**

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

#### **Impairment and uncollectability of financial assets**

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

#### **Derecognition**

##### **Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

#### **Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.7 Financial instruments (continued)**

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### **1.8 Leases**

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

#### **Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

#### **Operating leases - lessor**

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### **Operating leases - lessee**

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### **1.9 Inventories**

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the economic entity incurs to acquire the asset on the reporting date.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.9 Inventories (continued)**

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the formula. The same cost formula is used for all inventories having a similar nature and use to the economic entity.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **1.10 Impairment of cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the economic entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the economic entity.

Criteria developed by the economic entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

#### **Value in use**

Value in use of a cash-generating asset is the present value of the estimated future cash flows expected to be derived from the continuing use of an asset and from its disposal at the end of its useful life.

When estimating the value in use of an asset, the economic entity estimates the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and the economic entity applies the appropriate discount rate to those future cash flows.

#### **Discount rate**

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Recognition and measurement (individual asset)**

If the recoverable amount of a cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standard of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

#### **Cash-generating units**

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the economic entity determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the economic entity use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.10 Impairment of cash-generating assets (continued)**

#### **Reversal of impairment loss**

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a cash-generating asset may no longer exist or may have decreased. If any such indication exists, the entity estimates the recoverable amount of that asset.

An impairment loss recognised in prior periods for a cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the cash-generating asset is adjusted in future periods to allocate the cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

### **1.11 Impairment of non-cash-generating assets**

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

Useful life is either:

- (a) the period of time over which an asset is expected to be used by the economic entity; or
- (b) the number of production or similar units expected to be obtained from the asset by the economic entity.

Criteria developed by the economic entity to distinguish non-cash-generating assets from cash-generating assets are as follow:  
[Specify criteria]

#### **Identification**

When the carrying amount of a non-cash-generating asset exceeds its recoverable service amount, it is impaired.

The economic entity assesses at each reporting date whether there is any indication that a non-cash-generating asset may be impaired. If any such indication exists, the economic entity estimates the recoverable service amount of the asset.

Irrespective of whether there is any indication of impairment, the entity also test a non-cash-generating intangible asset with an indefinite useful life or a non-cash-generating intangible asset not yet available for use for impairment annually by comparing its carrying amount with its recoverable service amount. This impairment test is performed at the same time every year. If an intangible asset was initially recognised during the current reporting period, that intangible asset was tested for impairment before the end of the current reporting period.

#### **Value in use**

Value in use of non-cash-generating assets is the present value of the non-cash-generating assets remaining service potential.

The present value of the remaining service potential of a non-cash-generating assets is determined using the following approach:

#### **Depreciated replacement cost approach**

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the economic entity would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### **Recognition and measurement**

If the recoverable service amount of a non-cash-generating asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. This reduction is an impairment loss.

An impairment loss is recognised immediately in surplus or deficit.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

When the amount estimated for an impairment loss is greater than the carrying amount of the non-cash-generating asset to which it relates, the economic entity recognises a liability only to the extent that is a requirement in the Standards of GRAP.

After the recognition of an impairment loss, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.11 Impairment of non-cash-generating assets (continued)**

#### **Reversal of an impairment loss**

The economic entity assess at each reporting date whether there is any indication that an impairment loss recognised in prior periods for a non-cash-generating asset may no longer exist or may have decreased. If any such indication exists, the economic entity estimates the recoverable service amount of that asset.

An impairment loss recognised in prior periods for a non-cash-generating asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. The carrying amount of the asset is increased to its recoverable service amount. The increase is a reversal of an impairment loss. The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of depreciation or amortisation) had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

Any reversal of an impairment loss of a revalued non-cash-generating asset is treated as a revaluation increase.

After a reversal of an impairment loss is recognised, the depreciation (amortisation) charge for the non-cash-generating asset is adjusted in future periods to allocate the non-cash-generating asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

### **1.12 Share capital / contributed capital**

An equity instrument is any contract that evidences a residual interest in the assets of an economic entity after deducting all of its liabilities.

### **1.13 Employee benefits**

Employee benefits are all forms of consideration given by an entity in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting entity, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, unless either:

- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting entity to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:

- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from an entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:

- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:

- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

#### **Post-employment benefits**

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an entity provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Post-employment benefits: Defined contribution plans**

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the entity during a reporting period, the entity recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Post-employment benefits: Defined benefit plans**

Defined benefit plans are post-employment benefit plans other than defined contribution plans.

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the entity recognise actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

Current service cost is the increase in the present value of the defined benefit obligation resulting from employee service in the current period.

Interest cost is the increase during a period in the present value of a defined benefit obligation which arises because the benefits are one period closer to settlement.

Past service cost is the change in the present value of the defined benefit obligation for employee service in prior periods, resulting in the current period from the introduction of, or changes to, post-employment benefits or other long-term employee benefits. Past service cost may be either positive (when benefits are introduced or changed so that the present value of the defined benefit obligation increases) or negative (when existing benefits are changed so that the present value of the defined benefit obligation decreases). In measuring its defined benefit liability the entity recognise past service cost as an expense in the reporting period in which the plan is amended.

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

The present value of a defined benefit obligation is the present value, without deducting any plan assets, of expected future payments required to settle the obligation resulting from employee service in the current and prior periods.

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

The amount recognised as a defined benefit liability is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

The amount determined as a defined benefit liability may be negative (an asset). The entity measure the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

The entity determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity such that the amounts recognised in the consolidated annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

The entity recognises the net total of the following amounts in surplus or deficit, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

#### **Other post retirement obligations**

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.13 Employee benefits (continued)**

#### **Termination benefits**

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

### **1.14 Provisions and contingencies**

Provisions are recognised when:

- the economic entity has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the economic entity settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.14 Provisions and contingencies (continued)**

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the economic entity

No obligation arises as a consequence of the sale or transfer of an operation until the economic entity is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The economic entity recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the economic entity for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the economic entity considers that an outflow of economic resources is probable, an economic entity recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.14 Provisions and contingencies (continued)**

#### **Decommissioning, restoration and similar liability**

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.10 and 1.11.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
    - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.14 Provisions and contingencies (continued)**

#### **Levies**

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The economic entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the economic entity being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the economic entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The economic entity recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

#### **1.15 Commitments**

Items are classified as commitments when an entity has committed itself to future transactions that will normally result in the outflow of cash.

Disclosures are required in respect of unrecognised contractual commitments.

Commitments for which disclosure is necessary to achieve a fair presentation should be disclosed in a note to the financial statements, if both the following criteria are met:

- Contracts should be non-cancellable or only cancellable at significant cost (for example, contracts for computer or building maintenance services); and
- Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

#### **1.16 Revenue from exchange transactions**

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.16 Revenue from exchange transactions (continued)**

#### **Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the economic entity has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the economic entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

#### **Interest, royalties and dividends**

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Royalties are recognised as they are earned in accordance with the substance of the relevant agreements.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### **1.17 Revenue from non-exchange transactions**

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### **Rates, including collection charges and penalties interest**

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### **Fines**

Revenue from the issuing of fines is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

The economic entity has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue amount collected from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

#### **Levies**

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.17 Revenue from non-exchange transactions (continued)**

#### **Government grants**

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the economic entity;
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, which-ever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### **Other grants and donations**

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

### **1.18 Borrowing costs**

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### **1.19 Fruitless and wasteful expenditure**

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### **1.20 Irregular expenditure**

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Accounting Policies**

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### **1.20 Irregular expenditure (continued)**

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.21 Related parties**

The economic entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the economic entity, including those charged with the governance of the economic entity in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the economic entity.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

### **1.22 Events after reporting date**

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The economic entity will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The economic entity will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 2. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,676	167	-	167
Bank balances	2,956,039	684,222	2,534,152	-
Short-term deposits	34,323,475	9,007,952	34,323,475	9,007,952
Bank overdraft	-	(45,125)	-	(45,125)
	<b>37,281,190</b>	<b>9,647,216</b>	<b>36,857,627</b>	<b>8,962,994</b>
Current assets	37,281,190	9,692,341	36,857,627	9,008,119
Current liabilities	-	(45,125)	-	(45,125)
	<b>37,281,190</b>	<b>9,647,216</b>	<b>36,857,627</b>	<b>8,962,994</b>

Fleet card amount is attached to the main account with the limit of R40 000

No item of cash and cash equivalents has been pledged as security.

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
Absa Bank- Current Account	2,530,159	(45,125)	3,401,550	2,530,144	(45,125)	3,401,550
Operational 9269						
ABSA Bank- Salaries Call Account 7272	5,117,015	3,883,857	1,238,979	5,117,015	3,883,857	1,238,979
ABSA MSP Fund Account 9972	2,457	2,391	2,339	(9,983)	2,391	2,339
ABSA Repairs Account 2134	24,298,362	2,583,734	2,320,921	24,298,362	2,583,734	2,320,921
ABSA Call Account FMG 6056	3,245,348	1,001,162	3,242,648	3,245,357	1,001,162	3,242,684
ABSA MIG Call Account 6187	8,745	2,345	928,445	8,745	2,345	928,445
ABSA LED Account 7159	13,288	121,551	2,290,757	13,288	121,551	2,290,757
ABSA Traffic Call Account 3891	5,644	5,487	5,273	5,664	5,487	5,273
ABSA Plant Call Account	1,645,027	1,407,425	1,211,398	1,645,027	1,407,425	1,211,398
Petty Cash	-	167	(36)	-	167	(36)
ABSA EPWP 7506	1,002	-	-	1,002	-	-
ABSA Bank LG SETA 9964	1,002	-	-	1,002	-	-
ABSA Bank INEP 6122	1,002	-	-	1,002	-	-
ABSA Bank 7695	1,002	-	-	1,002	-	-
ABSA Bank -Primary ACCOUNT2488	40,990	83,331	47,468	40,990	83,331	47,468
ABSA Bank- Salaries Account 8356	380,035	600,352	890	380,035	600,352	890
ABSA Bank Small Scale Fish 9179	-	-	25	-	-	25
ABSA Bank-Mngazi to Manteku 4521	862	539	23,117	862	539	23,117
<b>Total</b>	<b>37,291,940</b>	<b>9,647,216</b>	<b>14,713,774</b>	<b>37,279,514</b>	<b>9,647,216</b>	<b>14,713,810</b>

### 3. Receivables from exchange transactions

Gross balances				
Refuse	5,123,051	4,156,159	5,123,051	4,156,159
Property lease rental	161,616	161,616	161,616	161,616
	<b>5,284,667</b>	<b>4,317,775</b>	<b>5,284,667</b>	<b>4,317,775</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>3. Receivables from exchange transactions (continued)</b>				
<b>Less: Allowance for impairment</b>				
Refuse	(4,396,151)	(3,509,175)	(4,396,151)	(3,509,175)
Property lease rental	(145,454)	(145,454)	(145,454)	(145,454)
	<b>(4,541,605)</b>	<b>(3,654,629)</b>	<b>(4,541,605)</b>	<b>(3,654,629)</b>
<b>Net balance</b>				
Refuse	726,900	646,984	726,900	646,984
Property lease rental	16,162	16,162	16,162	16,162
	<b>743,062</b>	<b>663,146</b>	<b>743,062</b>	<b>663,146</b>
<b>Refuse</b>				
Current (0 -30 days)	317,300	292,588	317,300	292,588
31 - 60 days	102,208	92,324	102,208	92,324
61 - 90 days	101,344	90,902	101,344	90,902
91 - 120 days	4,602,199	3,680,346	4,602,199	3,680,346
Less: Allowance	(4,396,151)	(3,509,176)	(4,396,151)	(3,509,176)
	<b>726,900</b>	<b>646,984</b>	<b>726,900</b>	<b>646,984</b>
<b>Housing rental</b>				
Current (0 -30 days)	161,616	161,616	161,616	161,616
Less Impairment	(145,454)	(145,454)	(145,454)	(145,454)
	<b>16,162</b>	<b>16,162</b>	<b>16,162</b>	<b>16,162</b>
<b>Summary of debtors by customer classification</b>				
<b>Consumers</b>				
Current (0 -30 days)	80,874	82,525	80,874	82,525
31 - 60 days	27,863	26,968	27,863	26,968
61 - 90 days	27,463	26,653	27,463	26,653
91 - 120 days	1,669,862	1,462,501	1,669,862	1,462,501
Less: Allowance for impairment	(1,588,139)	(1,331,042)	(1,588,139)	(1,331,042)
	<b>217,923</b>	<b>267,605</b>	<b>217,923</b>	<b>267,605</b>
<b>Consumers past due and impaired</b>				
31- 60 days	27,863	26,968	27,863	26,968
61- 90 days	27,473	26,653	27,473	26,653
> 90 days	1,831,478	1,462,501	1,831,478	1,462,501
	<b>1,886,814</b>	<b>1,516,122</b>	<b>1,886,814</b>	<b>1,516,122</b>
<b>Industrial/ commercial</b>				
Current (0 -30 days)	132,928	117,959	132,928	117,959
31 - 60 days	40,512	35,612	40,512	35,612
61 - 90 days	40,230	35,225	40,230	35,225
91 - 120 days	1,176,812	833,534	1,176,812	833,534
Less: Allowance for impairment	(1,094,439)	(803,074)	(1,094,439)	(803,074)
	<b>296,043</b>	<b>219,256</b>	<b>296,043</b>	<b>219,256</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>3. Receivables from exchange transactions (continued)</b>				
<b>Industrial past due and impaired</b>				
31 -60 days	102,208	35,612	102,208	35,612
61- 90 days	40,230	35,612	40,230	35,612
> 90 days	1,176,812	833,534	1,176,812	833,534
	<b>1,319,250</b>	<b>904,758</b>	<b>1,319,250</b>	<b>904,758</b>
<b>National and provincial government</b>				
Current (0 -30 days)	103,498	92,103	103,498	92,103
31 - 60 days	33,833	29,743	33,833	29,743
61 - 90 days	33,641	29,025	33,641	29,025
91 - 120 days	1,755,525	1,384,310	1,755,525	1,384,310
	<b>1,926,497</b>	<b>1,535,181</b>	<b>1,926,497</b>	<b>1,535,181</b>
Less: Allowance for impairment	(1,094,439)	(1,375,059)	(1,094,439)	(1,375,059)
	<b>832,058</b>	<b>160,122</b>	<b>832,058</b>	<b>160,122</b>
<b>National and Provincial Governmnts- Past Due and Impaired</b>				
31- 60 days	33,833	29,743	33,833	29,743
61- 90 days	33,641	29,025	33,641	29,025
> 90 days	1,755,525	1,384,310	1,755,525	1,384,310
	<b>1,822,999</b>	<b>1,443,078</b>	<b>1,822,999</b>	<b>1,443,078</b>
<b>Total</b>				
Current (0 -30 days)	317,300	292,588	317,300	292,588
31 - 60 days	102,208	92,324	102,208	92,324
61 - 90 days	101,344	90,902	101,344	90,902
>120 days	4,763,815	3,841,960	4,763,815	3,841,960
	<b>5,284,667</b>	<b>4,317,774</b>	<b>5,284,667</b>	<b>4,317,774</b>
Less: Allowance for impairment	(4,541,605)	(3,654,628)	(4,541,605)	(3,654,628)
	<b>743,062</b>	<b>663,146</b>	<b>743,062</b>	<b>663,146</b>
<b>Reconciliation of allowance for impairment</b>				
Balance at beginning of the year	(3,654,629)	(3,101,964)	(3,654,629)	(3,101,964)
Reversal of allowance	(886,976)	(552,665)	(886,976)	(552,665)
	<b>(4,541,605)</b>	<b>(3,654,629)</b>	<b>(4,541,605)</b>	<b>(3,654,629)</b>
<b>Consumer debtors pledged as security</b>				
No receivables from exchange transactions have been pledged as security.				

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 3. Receivables from exchange transactions (continued)

#### Credit quality of receivables from exchange transactions

The credit quality of receivables from exchange transactions that are neither past due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good credit quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from refuse are billed monthly. Interest is charged on overdue consumers receivables at a rate of 15% per annum.

The municipality enforces its approved credit control policy to ensure the recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

### 4. Receivables from non exchange transactions

#### Gross balances

Rates	20,548,930	18,037,157	20,548,930	18,037,157
Traffic	747,583	509,113	747,583	509,113
	<b>21,296,513</b>	<b>18,546,270</b>	<b>21,296,513</b>	<b>18,546,270</b>

#### Less: Allowance for impairment

Rates	(17,203,121)	(16,351,749)	(17,203,121)	(16,351,749)
Traffic fines	(614,533)	(432,618)	(614,533)	(432,618)
	<b>(17,817,654)</b>	<b>(16,784,367)</b>	<b>(17,817,654)</b>	<b>(16,784,367)</b>

Net Balance - Rates

Net Balance- Traffic fines

3,345,809	1,685,408	3,345,809	1,685,408
133,050	79,326	133,050	76,495
<b>3,478,859</b>	<b>1,764,734</b>	<b>3,478,859</b>	<b>1,761,903</b>

#### Rates

#### Receivables from non exchange transactions

##### Rates

Current ( 0- 30 days)	312,672	994,096	312,672	994,096
31 -60 days	258,920	242,033	258,920	242,033
61- 90 days	258,898	241,032	258,898	241,032
91- 120 days	19,718,441	16,559,996	19,718,441	16,559,996
Less impairment allowance	(17,203,122)	(16,351,749)	(17,203,122)	(16,351,749)
	<b>3,345,809</b>	<b>1,685,408</b>	<b>3,345,809</b>	<b>1,685,408</b>

##### Traffic fines

Current ( 0- 30 days)	11,650	44,363	11,650	44,363
31 -60 days	21,300	22,480	21,300	22,480
61- 90 days	44,800	8,873	44,800	8,873
91- 120 days	669,833	433,397	669,833	433,397
Less impairment allowance	(614,533)	(432,618)	(614,533)	(432,618)
	<b>133,050</b>	<b>76,495</b>	<b>133,050</b>	<b>76,495</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>4. Receivables from non exchange transactions (continued)</b>				
<b>Summary of receivables by customer classification</b>				
<b>Consumers</b>				
Current (0-30 days)	171,454	540,892	171,454	540,892
31 -60 days	137,244	123,644	137,244	123,644
61- 90 days	137,170	122,775	137,170	122,775
91 -120 days	10,326,478	8,685,904	10,326,478	8,685,904
Subtotal	10,772,346	9,473,215	10,772,346	9,473,215
Less allowance for impairment	(9,755,120)	(7,784,554)	(9,755,120)	(7,784,554)
	<b>1,017,226</b>	<b>1,688,661</b>	<b>1,017,226</b>	<b>1,688,661</b>
<b>Consumers past due and impaired</b>				
31 -60 days	137,244	123,644	137,244	123,644
61 -90 days	137,170	122,775	137,170	122,775
> 120 days	10,326,478	8,685,904	10,326,478	8,685,904
Subtotal	10,600,892	8,932,323	10,600,892	8,932,323
	<b>10,600,892</b>	<b>8,932,323</b>	<b>10,600,892</b>	<b>8,932,323</b>
<b>Industrial/ Commercial</b>				
Current 0- 30 days)	12,337	246,508	12,337	246,508
31 -60 days	51,406	56,151	51,406	56,151
61 - 90 days	51,424	55,985	51,424	55,985
> 90 days	4,488,498	4,652,448	4,488,498	4,652,448
Subtotal	4,603,665	5,011,092	4,603,665	5,011,092
Less allowance for impairment	(3,144,345)	(3,393,294)	(3,144,345)	(3,393,294)
	<b>1,459,320</b>	<b>1,617,798</b>	<b>1,459,320</b>	<b>1,617,798</b>
<b>Industrial past due and impaired</b>				
31 -60 days	51,406	56,151	51,406	56,151
61 - 90 days	51,424	55,985	51,424	55,985
> 90 days	4,488,498	4,652,448	4,488,498	4,652,448
Subtotal	4,591,328	4,764,584	4,591,328	4,764,584
	<b>4,591,328</b>	<b>4,764,584</b>	<b>4,591,328</b>	<b>4,764,584</b>
<b>National and Provincial government</b>				
Current ( 0-30 days)	128,881	206,696	128,881	206,696
31- 60 days	70,269	62,238	70,269	62,238
61- 90 days	70,304	62,273	70,304	62,273
91- 120 days	4,903,464	5,804,148	4,903,464	5,804,148
Subtotal	5,172,918	6,135,355	5,172,918	6,135,355
Less impairment allowance	(4,303,656)	(5,173,902)	(4,303,656)	(5,173,902)
	<b>869,262</b>	<b>961,453</b>	<b>869,262</b>	<b>961,453</b>
<b>National and provincial governments- Past due and impaired</b>				
31- 60 days	70,269	62,238	70,269	62,238
61 -90 days	70,304	62,273	70,304	62,273
>90 days	4,903,464	5,804,148	4,903,464	5,804,148
Subtotal	5,044,037	5,928,659	5,044,037	5,928,659
	<b>5,044,037</b>	<b>5,928,659</b>	<b>5,044,037</b>	<b>5,928,659</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>4. Receivables from non exchange transactions (continued)</b>				
<b>Total</b>				
Current ( 0 -30 days)	324,322	1,038,459	324,322	1,038,459
31 -60 days	280,220	264,513	280,220	264,513
61- 90 days	303,698	249,905	303,698	249,905
91- 120 days	20,388,273	16,993,393	20,388,273	16,993,393
Subtotal	21,296,513	18,546,270	21,296,513	18,546,270
Less allowance for impairment	(4,918,189)	(16,784,367)	(4,918,189)	(16,784,367)
	<b>16,378,324</b>	<b>1,761,903</b>	<b>16,378,324</b>	<b>1,761,903</b>

### Reconciliation of allowance for impairment

Opening balance	16,784,367	13,489,006	16,784,367	13,489,006
Contributions to allowance	1,033,287	3,295,361	1,033,287	3,295,361
	<b>17,817,654</b>	<b>16,784,367</b>	<b>17,817,654</b>	<b>16,784,367</b>

### Consumers receivables pledged as security

No consumer debtors have been pledged as security for any liabilities of the municipality

### Credit quality of receivables from non exchange transactions.

The credit quality of receivables from non exchange transactions that are neither due nor impaired can be assessed for indicators of impairment. The municipality considers that the above financial assets that are not impaired at each of the reporting dates under review are of good quality. The municipality continuously monitors consumers and identified groups by reference to annual payment rates and incorporates this information into its risk credit control. No external credit rating is performed.

Consumer receivables from rates are billed monthly. Interest is charged on overdue consumer receivables at a rate of 15% per annum. No interest is charged on overdue traffic fines debtors

The municipality enforces its approved credit control policy to ensure recovery of receivables. None of the financial assets that are fully performing have been renegotiated in the last year.

### 5. VAT receivable

VAT	439,599	14,571,230	5,399,065	19,625,583
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VAT receivable amount is made up of two basis as follows:

#### Cash Basis

VAT Input	-	927,544	-	927,544
VAT Control	3,398,584	16,559,070	3,398,584	16,559,070
Accruals basis	3,398,584	17,486,614	3,398,584	17,486,614
Creditors VAT Provisional	2,110,459	4,701,413	2,110,459	4,701,413
Creditors VAT Provisional ( Contingent asset)	407,001	76,661	407,001	76,661
Creditors VAT provisional ( AG Laman)	-	(2,160,112)	-	(2,160,112)
Debtors VAT Provisional	(503,185)	(437,056)	(503,185)	(437,056)
Debtors VAT provisional ( Contingent Asset)	(13,795)	(41,938)	(13,795)	(41,938)
VAT Payable ( Agency)	(4,959,466)	(5,054,353)	-	-
	<b>439,598</b>	<b>14,571,229</b>	<b>5,399,064</b>	<b>19,625,582</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 5. Property, plant and equipment (continued)

Other write offs already taken into account on the VAT Control

SARS assessments during the year	-	-	1,979,540	6,646,881
Penalties and Interest during the year incurred	-	-	382,174	1,292,195
Penalties and Interest during the year	-	-	(364,125)	-
	-	-	<b>1,997,589</b>	<b>7,939,076</b>

### 6. Other debtors from exchange transactions

SALGA	742,224	-	742,224	-
ABSA and others	33,224	-	33,224	-
Mozi Auction	-	531,385	-	531,385
Telkom	-	2,831	-	-
	<b>775,448</b>	<b>534,216</b>	<b>775,448</b>	<b>531,385</b>

### 7. Inventories

	1,457,645	520,855	1,457,645	520,855
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#### 7.1 Inventory is categorised as follows

Construction material	824,632	243,482	824,632	243,482
Protective and cleaning material	27,006	45,550	27,006	45,550
Gardening	5,776	25,190	5,776	25,190
Mechanical tools	31,655	38,425	31,655	38,425
Spare parts	265,319	46,438	265,319	46,438
Fuel and oil	303,257	121,770	303,257	121,770
	<b>1,457,645</b>	<b>520,855</b>	<b>1,457,645</b>	<b>520,855</b>

### 8. Investment property

Economic entity	2016		2015			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	
Investment property	11,461,003	-	11,461,003	11,461,003	-	11,461,003

Controlling entity	2016		2015			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	
Investment property	11,461,003	-	11,461,003	11,461,003	-	11,461,003

#### Reconciliation of investment property - Economic entity - 2016

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 8. Investment property (continued)

	Opening balance	Total
Investment property	11,461,003	11,461,003

#### Reconciliation of investment property - Economic entity - 2015

	Opening balance	Total
Investment property	11,461,003	11,461,003

#### Reconciliation of investment property - Controlling entity - 2016

	Opening balance	Total
Investment property	11,461,003	11,461,003

#### Reconciliation of investment property - Controlling entity - 2015

	Opening balance	Total
Investment property	11,461,003	11,461,003

### Pledged as security

None of the above investment property has been pledged as security:

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 9. Property, plant and equipment

Economic entity	2016		2015			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Cost / Valuation	Accumulated depreciation and accumulated impairment		
Buildings	67,942,292	(1,941,785)	66,000,507	67,942,292	(1,470,250)	66,472,042
Plant and machinery	35,167,051	(8,877,726)	26,289,325	34,927,119	(6,706,165)	28,220,954
Furniture and fixtures	1,205,368	(601,414)	603,954	980,181	(478,548)	501,633
Motor vehicles	4,325,826	(2,116,678)	2,209,148	3,128,292	(1,683,937)	1,444,355
Office equipment	621,159	(235,299)	385,860	322,021	(154,065)	167,956
IT equipment	1,721,269	(789,592)	931,677	1,359,080	(771,669)	587,411
Infrastructure	350,945,240	(171,767,699)	179,177,541	342,326,393	(147,230,240)	195,096,153
Community	13,055,758	(3,329,541)	9,726,217	13,055,758	(2,846,141)	10,209,617
Security measures	14,300	(14,299)	1	14,300	(14,299)	1
Infrastructure WIP	74,500,842	-	74,500,842	53,953,573	-	53,953,573
Cellular Equipment	878,106	(758,686)	119,420	855,529	(422,315)	433,214
Signage	24,436	(16,975)	7,461	24,436	(12,087)	12,349
<b>Total</b>	<b>550,401,647</b>	<b>(190,449,694)</b>	<b>359,951,953</b>	<b>518,888,974</b>	<b>(161,789,716)</b>	<b>357,099,258</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 9. Property, plant and equipment (continued)

Controlling entity	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	67,942,292	(1,941,785)	66,000,507	67,942,292	(1,470,250)	66,472,042
Plant and machinery	35,153,732	(8,864,408)	26,289,324	34,913,800	(6,692,847)	28,220,953
Furniture and fixtures	1,034,270	(441,839)	592,431	810,382	(325,867)	484,515
Motor vehicles	3,635,496	(1,706,709)	1,928,787	2,437,962	(1,360,233)	1,077,729
Office equipment	619,142	(234,067)	385,075	320,004	(153,505)	166,499
IT equipment	1,573,934	(666,630)	907,304	1,085,236	(503,654)	581,582
Infrastructure	350,945,240	(171,767,699)	179,177,541	342,326,393	(147,230,240)	195,096,153
Community Assets	13,055,758	(3,329,541)	9,726,217	13,055,758	(2,846,141)	10,209,617
Infrastructure WIP	74,500,842	-	74,500,842	53,953,573	-	53,953,573
Cellular Equipment	878,106	(758,686)	119,420	855,529	(422,315)	433,214
<b>Total</b>	<b>549,338,812</b>	<b>(189,711,364)</b>	<b>359,627,448</b>	<b>517,700,929</b>	<b>(161,005,052)</b>	<b>356,695,877</b>

### Reconciliation of property, plant and equipment - Economic entity - 2016

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation
Buildings	66,472,042	-	-	-	-	584	(472,111)
Plant and machinery	28,220,954	239,931	-	-	-	-	(2,171,56)
Furniture and fixtures	501,633	225,187	-	-	-	-	(122,86)
Motor vehicles	1,444,355	1,197,534	-	-	-	-	(432,74)
Office equipment	167,956	299,138	-	-	-	-	(81,23)
IT equipment	587,411	579,317	(17,155)	-	-	-	(217,89)
Infrastructure	195,096,153	-	-	8,618,848	-	-	(24,537,46)
Community	10,209,617	-	-	-	-	-	(483,40)
Other property, plant and equipment	1	-	-	-	-	-	-
Infrastructure WIP	53,953,573	29,166,117	-	-	(8,618,848)	-	-
Cellphone Equipment	433,214	22,577	-	-	-	3,387	(339,75)
Signage	12,349	-	-	-	-	-	(4,88)
	<b>357,099,258</b>	<b>31,729,801</b>	<b>(17,155)</b>	<b>8,618,848</b>	<b>(8,618,848)</b>	<b>3,971</b>	<b>(28,863,92)</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - Economic entity - 2015

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Total
Buildings	66,648,075	341,436	-	-	-	(517,469)	66,472,042
Plant and machinery	29,373,666	1,292,749	(249,809)	-	-	(2,195,652)	28,220,955
Furniture and fixtures	469,774	199,256	(63,381)	-	-	(104,016)	501,633
Motor vehicles	1,704,136	431,324	(288,425)	-	-	(402,680)	1,444,351
Office equipment	133,562	123,757	(32,709)	-	-	(56,654)	167,953
IT equipment	534,392	330,695	(120,879)	-	-	(156,797)	587,414
Infrastructure	205,086,498	-	-	16,651,978	-	(26,642,323)	195,096,153
Community	10,692,202	-	-	-	-	(482,585)	10,209,617
Security measures	4,160	-	-	-	-	(4,159)	-
Infrastructure WIP	30,303,739	40,301,812	-	-	(16,651,978)	-	53,953,571
Cellular Equipment	433,214	-	-	-	-	-	433,214
Signage	8,800	8,436	-	-	-	(4,887)	12,343
	<b>345,392,218</b>	<b>43,029,465</b>	<b>(755,203)</b>	<b>16,651,978</b>	<b>(16,651,978)</b>	<b>(30,567,222)</b>	<b>357,099,251</b>

#### Reconciliation of property, plant and equipment - Controlling entity - 2016

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation
Buildings	66,472,042	-	-	-	-	584	(472,111)
Plant and machinery	28,220,953	239,931	-	-	-	-	(2,171,562)
Furniture and fixtures	484,515	223,888	-	-	-	-	(115,971)
Motor vehicles	1,077,729	1,197,534	-	-	-	-	(346,471)
Office equipment	166,499	299,138	-	-	-	-	(80,562)
IT equipment	581,582	550,698	(17,155)	-	-	-	(207,821)
Infrastructure	195,096,153	-	-	8,618,848	-	-	(24,537,461)
Community	10,209,617	-	-	-	-	-	(483,401)
Infrastructure WIP	53,953,573	29,166,117	-	-	(8,618,848)	-	-
Cellular Equipment	433,214	22,577	-	-	-	3,387	(339,751)
	<b>356,695,877</b>	<b>31,699,883</b>	<b>(17,155)</b>	<b>8,618,848</b>	<b>(8,618,848)</b>	<b>3,971</b>	<b>(28,755,121)</b>

#### Reconciliation of property, plant and equipment - Controlling entity - 2015

	Opening balance	Additions	Disposals	Transfers received	Other changes, movements	Depreciation	Total
Buildings	66,648,075	341,436	-	-	-	(517,469)	66,472,042
Plant and machinery	29,371,669	1,292,748	(249,809)	-	-	(2,193,655)	28,220,955
Furniture and fixtures	439,333	199,256	(63,381)	-	-	(90,693)	484,513
Motor vehicles	1,704,135	-	(288,425)	-	-	(337,981)	1,077,721
Office equipment	133,562	121,740	(32,709)	-	-	(56,094)	166,499
IT equipment	526,732	326,748	(120,879)	-	-	(151,019)	581,582
Infrastructure	205,086,498	-	-	16,651,978	-	(26,642,323)	195,096,151
Community	10,692,202	-	-	-	-	(482,585)	10,209,617
Infrastructure WIP	30,303,739	40,301,812	-	-	(16,651,978)	-	53,953,571
Cellular equipment	328,659	432,271	-	-	-	(327,716)	433,214
	<b>345,234,604</b>	<b>43,016,011</b>	<b>(755,203)</b>	<b>16,651,978</b>	<b>(16,651,978)</b>	<b>(30,799,535)</b>	<b>356,695,877</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>10. Other financial liabilities</b>				
<b>At amortised cost</b>				
Other financial liability 1	210,578	286,588	-	-
Terms and conditions				
<b>Non-current liabilities</b>				
At amortised cost	210,578	286,588	-	-
<b>11. Payables from exchange transactions</b>				
Trade payables	2,043,170	7,925,776	631,865	6,493,998
Payments received in advanced	1,099,302	782,385	1,099,302	782,385
Other payables 1	1,003,267	960,470	1,003,222	959,941
OR Tambo advance	2,621,675	3,187,625	2,621,362	3,187,468
Unallocated deposits	359,536	97,829	120,420	6,000
Payroll Accruals	857,786	210,850	746,041	1
Salary Suspense	8,740	59,731	8,740	59,731
Retentions	2,448,561	1,643,911	2,448,561	1,643,911
Other Creditors #5	2,817,644	2,706,408	2,817,644	2,706,408
OR Tambo advance	8,741,167	8,741,167	8,741,167	8,741,167
	<b>22,000,848</b>	<b>26,316,152</b>	<b>20,238,324</b>	<b>24,581,010</b>
<b>12. Finance lease obligation</b>				
<b>Minimum lease payments due</b>				
- within one year	10,823,091	14,723,589	10,536,503	14,345,532
- in second to fifth year inclusive	1,502	125,525	1,502	125,525
less: future finance charges	10,824,593	14,849,114	10,538,005	14,471,057
	(4,500)	(2,844,066)	(4,500)	(2,844,066)
<b>Present value of minimum lease payments</b>	<b>10,820,093</b>	<b>12,005,048</b>	<b>10,533,505</b>	<b>11,626,991</b>
<b>Present value of minimum lease payments due</b>				
- within one year	10,614,749	11,595,382	10,532,048	11,526,747
- in second to fifth year inclusive	205,344	409,656	1,457	100,244
	<b>10,820,093</b>	<b>12,005,038</b>	<b>10,533,505</b>	<b>11,626,991</b>
Non-current liabilities	1,457	100,244	1,457	100,244
Current liabilities	10,532,048	11,526,747	10,532,048	11,526,747
	<b>10,533,505</b>	<b>11,626,991</b>	<b>10,533,505</b>	<b>11,626,991</b>

The municipality entered into a finance lease agreement with Laman Finance. The lease period was for a period of 2.5 years and this was supposed to be paid off in April 2016. However, the municipality did not clear the finance lease obligation as per the agreed time and as such it remained outstanding as at 30 June 2016. The interest rate for this finance lease is per asset category and it ranges from 8% per annum to 10.5% per annum.

The municipality has also entered into a finance lease agreement with Vodacom with respect to Cellphone equipment. The average term of the lease is 2 years. The interest rate for the lease ranges from 8.5% to 10.5 %.

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The economic entity's obligations under finance leases are secured by the lessor's charge over the leased assets.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>13. Unspent Conditional grant</b>				
<b>Unspent conditional grants and receipts comprise of:</b>				
<b>Unspent conditional grants and receipts</b>				
Finance management grant	546,623	-	546,623	-
Mngazi to Mateku project	20,095	20,095	-	-
Small scal fish factory	1,011,550	1,011,550	-	-
Cutweni	1,219,989	1,219,989	-	-
	<b>2,798,257</b>	<b>2,251,634</b>	<b>546,623</b>	<b>-</b>

### Movement during the year

Balance at the beginning of the year	2,251,634	16,420,664	-	14,169,030
Additions during the year	29,284,920	44,699,360	29,284,920	44,699,360
Income recognition during the year	(28,738,297)	(58,868,390)	(28,738,297)	(58,868,390)
	<b>2,798,257</b>	<b>2,251,634</b>	<b>546,623</b>	<b>-</b>

The nature and extent of government grants recognised in the consolidated annual financial statements and an indication of other forms of government assistance from which the economic entity has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

### 14. Operating lease liability

Non-current liabilities	(1,729,553)	(1,597,514)	(1,729,553)	(1,597,514)
Current liabilities	-	-	-	1
	<b>(1,729,553)</b>	<b>(1,597,514)</b>	<b>(1,729,553)</b>	<b>(1,597,513)</b>

### Minimum lease payments

Within 1 year	148,434	136,145	148,434	136,145
In the second to 5th year	968,283	678,806	968,283	678,806
After five years	5,708,950	6,451,893	5,708,950	6,451,893
	<b>6,825,667</b>	<b>7,266,844</b>	<b>6,825,667</b>	<b>7,266,844</b>

### 15. Employee benefit obligations

The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Employee benefit obligation	(2,128,356)	(1,981,000)	(2,128,356)	(1,981,000)
Non-current liabilities	(1,898,031)	(1,472,000)	(1,898,031)	(1,472,000)
Current liabilities	(230,325)	(509,000)	(230,325)	(509,000)
	<b>(2,128,356)</b>	<b>(1,981,000)</b>	<b>(2,128,356)</b>	<b>(1,981,000)</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>15. Employee benefit obligations (continued)</b>				
<b>Changes in the present value of the defined benefit obligation are as follows:</b>				
Opening balance	1,981,000	1,822,000	1,981,000	1,822,000
Net expense recognised in the statement of financial position	147,356	159,000	147,356	159,000
	<b>2,128,356</b>	<b>1,981,000</b>	<b>2,128,356</b>	<b>1,981,000</b>
<b>Net expense recognised in the statement of financial performance</b>				
Opening balance	586,000	427,000	586,000	427,000
Current service cost	320,000	298,000	320,000	298,000
Benefit paid	-	(85,821)	-	(85,821)
Interest cost	189,000	155,000	189,000	155,000
Actuarial (gains) losses	(361,644)	(208,179)	(361,644)	(208,179)
	<b>733,356</b>	<b>586,000</b>	<b>733,356</b>	<b>586,000</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 16. Provisions

#### Reconciliation of provisions - Economic entity - 2016

	Opening Balance	Additions	Increase due to unwinding of discount	Total
Environmental rehabilitation	4,801,824	-	292,911	5,094,735
VAT Provision	3,359,854	729,854	-	4,089,708
	<b>8,161,678</b>	<b>729,854</b>	<b>292,911</b>	<b>9,184,443</b>

#### Reconciliation of provisions - Economic entity - 2015

	Opening Balance	Additions	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	4,343,092	206,131	57,162	195,439	4,801,824
VAT Provision	2,720,232	639,622	-	-	3,359,854
	<b>7,063,324</b>	<b>845,753</b>	<b>57,162</b>	<b>195,439</b>	<b>8,161,678</b>

#### Reconciliation of provisions - Controlling entity - 2016

	Opening Balance	Increase due to unwinding of discount	Total
Environmental rehabilitation	4,801,824	292,911	5,094,735

#### Reconciliation of provisions - Controlling entity - 2015

	Opening Balance	Additions	Reversed during the year	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	4,343,092	206,131	57,162	195,439	4,801,824
Non-current liabilities	5,094,735	4,801,824	5,094,735	4,801,824	
Current liabilities	4,089,708	3,359,854	-	-	
	<b>9,184,443</b>	<b>8,161,678</b>	<b>5,094,735</b>	<b>4,801,824</b>	

### 17. Accumulated surplus

#### Changes in Accumulatedsurplus - Economic entity - 2016

	Accumulated surplus	Total
Opening balance	343,907,634	343,907,634
Surplus for the year	22,950,776	22,950,776
Prior period error	72,090	72,090
	<b>366,930,500</b>	<b>366,930,500</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### 17. Accumulated surplus (continued)

#### Changes in accumulated surplus - Economic entity - 2015

	Accumulated surplus	Total
Opening balance	332,065,530	332,065,530
Surplus for the year	12,268,120	12,268,120
Prior period error	(426,016)	(426,016)
	<b>343,907,634</b>	<b>343,907,634</b>

#### Changes in Accumulated surplus Controlling entity 2016

	Accumulated Surplus	Total
Opening balance	355,573,408	355,573,408
Surplus for the year	23,864,018	23,864,018
Prior period error	72,078	72,078
	<b>379,509,504</b>	<b>379,509,504</b>

#### Changes in accumulated surplus Controlling - 2015

	Accumulated Surplus	Total
Opening balance	342,163,730	342,163,730
Surplus	13,835,697	13,835,697
Prior period error	(426,019)	(426,019)
	<b>355,573,408</b>	<b>355,573,408</b>

### 18. Revenue

Service charges	755,693	726,277	755,693	726,277
Rental of facilities and equipment	34,025	58,056	34,025	58,056
Interest received (trading)	2,946,910	2,551,169	2,946,098	2,550,539
Other income	559,520	292,457	559,520	292,457
Other income 3	-	200	-	-
Interest received - investment	1,650,441	808,187	1,650,441	808,187
Property rates	6,741,055	3,962,250	6,741,055	3,962,250
Government grants & subsidies	149,272,297	143,535,495	149,272,297	143,535,495
Public contributions and donations	2,500	724,495	2,500	724,495
Fines, Penalties and Forfeits	290,100	285,650	290,100	285,650
Other revenue	45,444	24,267	45,444	24,267
	<b>162,297,985</b>	<b>152,968,503</b>	<b>162,297,173</b>	<b>152,967,673</b>

#### The amount included in revenue arising from exchanges of goods or services are as follows:

Service charges	755,693	726,277	755,693	726,277
Rental of facilities and equipment	34,025	58,056	34,025	58,056
Interest received (trading)	2,946,910	2,551,169	2,946,098	2,550,539
Other income - (rollup)	559,520	292,457	559,520	292,457
Other income 3	-	200	-	-
Interest received - investment	1,650,441	808,187	1,650,441	808,187
	<b>5,946,589</b>	<b>4,436,346</b>	<b>5,945,777</b>	<b>4,435,516</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>18. Revenue (continued)</b>				
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>				
<b>Taxation revenue</b>				
Property rates	6,741,055	3,962,250	6,741,055	3,962,250
<b>Transfer revenue</b>				
Government grants & subsidies	149,272,297	143,535,495	149,272,297	143,535,495
Public contributions and donations	2,500	724,495	2,500	724,495
Fines, Penalties and Forfeits	290,100	285,650	290,100	285,650
Licences and permits	45,444	24,267	45,444	24,267
	<b>156,351,396</b>	<b>148,532,157</b>	<b>156,351,396</b>	<b>148,532,157</b>
<b>19. Investment revenue</b>				
<b>Interest revenue</b>				
Bank	1,650,441	808,187	1,650,441	808,187
	<b>1,650,441</b>	<b>808,187</b>	<b>1,650,441</b>	<b>808,187</b>
<b>20. Service charges</b>				
Refuse removal	755,693	726,277	755,693	726,277
<b>21. Rental of facilities and equipment</b>				
Premises	34,025	58,056	34,025	58,056
Premises	34,025	58,056	34,025	58,056
Garages and parking	-	-	-	-
Facilities and equipment	-	-	-	-
	<b>34,025</b>	<b>58,056</b>	<b>34,025</b>	<b>58,056</b>
<b>22. Other income</b>				
Insurance claims received	173,960	77,189	173,960	77,189
Plan and tender documents fees	243,373	145,656	243,373	145,656
Sundry income	79,988	4,424	79,988	4,424
Grave sites	9,833	31,431	9,833	31,431
Commissions received	52,366	33,757	52,366	33,757
	<b>559,520</b>	<b>292,457</b>	<b>559,520</b>	<b>292,457</b>
<b>23. Other revenue</b>				
Other income	559,520	292,457	559,520	292,457
Other income 3	-	200	-	-
	<b>559,520</b>	<b>292,657</b>	<b>559,520</b>	<b>292,457</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>24. Property rates</b>				

### Rates received

Residential	(489,631)	(15,618)	(489,631)	(15,618)
State	7,230,686	3,977,868	7,230,686	3,977,868
	<b>6,741,055</b>	<b>3,962,250</b>	<b>6,741,055</b>	<b>3,962,250</b>

### Valuations

Residential	127,137,359	129,006,759	127,137,359	129,006,759
Commercial	125,832,640	101,936,140	125,832,640	101,936,140
State	160,028,500	60,255,900	160,028,500	60,255,900
Small holdings and farms	23,167,750	23,312,750	23,167,750	23,312,750
Vacant plots	44,314,669	42,309,669	44,314,669	42,309,669
	<b>480,480,918</b>	<b>356,821,218</b>	<b>480,480,918</b>	<b>356,821,218</b>

Valuations on land and buildings are performed every four (4) years. The last general valuation came into effect on 1 July 2013. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.06 (2015: 0.06) is applied to property valuations to determine assessment rates. Rebates of 30%(2015: 30%) are granted to property owners.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>25. Government grants and subsidies</b>				
<b>Operating grants</b>				
Equitable share	120,534,000	92,151,467	120,534,000	92,151,467
Extended public works programme	1,149,001	1,119,000	1,149,001	1,119,000
Municipal systems improvement grant	803,248	989,264	803,248	989,264
Finance management grant	1,380,128	1,849,894	1,380,128	1,849,894
LG SETA	1,027,920	1,332,695	1,027,920	1,332,695
Municipal support programme	-	6,112,380	-	5,235,187
Local economic development	-	4,176,303	-	3,649,987
PSJM grant	-	(1,403,509)	-	-
Provincial DSRAC	100,000	210,000	100,000	210,000
	<b>124,994,297</b>	<b>106,537,494</b>	<b>124,994,297</b>	<b>106,537,494</b>

### Capital grants

Municipal Infrastructure grant	24,278,000	36,998,001	24,278,000	36,998,001
	<b>124,994,297</b>	<b>106,537,494</b>	<b>124,994,297</b>	<b>106,537,494</b>
	<b>24,278,000</b>	<b>36,998,001</b>	<b>24,278,000</b>	<b>36,998,001</b>
	<b>149,272,297</b>	<b>143,535,495</b>	<b>149,272,297</b>	<b>143,535,495</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of 50 kwh which is funded from the equitable share grant. Refuse removal services for a tariff of R96.67 are offered for free to the indigent community of Mtumbane village.

### Grants

Balance unspent at beginning of year	-	14,169,030	-	14,169,030
Current-year receipts	29,284,920	44,699,360	29,284,920	44,699,360
Conditions met - transferred to revenue	(28,738,297)	(58,868,390)	(28,738,297)	(58,868,390)
	<b>546,623</b>	-	<b>546,623</b>	-

Conditions still to be met - remain liabilities (see note 13).

### Municipal systems improvement grant

Current-year receipts	930,000	934,000	930,000	934,000
Conditions met - transferred to revenue	(803,248)	(934,000)	(803,248)	(934,000)
	<b>126,752</b>	-	<b>126,752</b>	-

Conditions still to be met - remain liabilities (see note 13).

To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act.

### Expanded public works programme

Current-year receipts	1,149,000	1,119,000	1,149,000	1,119,000
Conditions met - transferred to revenue	(1,149,000)	(1,119,000)	(1,149,000)	(1,119,000)
	-	-	-	-

To incentivise municipalities to expand work creation efforts through the use of labour intensive delivery methods in identified focus areas.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>25. Government grants and subsidies (continued)</b>				
<b>Municipal infrastructure grant</b>				

Balance unspent at beginning of year	-	7,541,468	-	7,541,468
Current-year receipts	24,278,000	36,998,000	24,278,000	36,998,000
Conditions met - transferred to revenue	(24,278,000)	(36,998,000)	(24,278,000)	(36,998,000)
Other	-	(7,541,468)	-	(7,541,468)
	-	-	-	-

To provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions , servicing poor communities.

### Municipal support programme

Balance unspent at beginning of year	-	3,735,187	-	3,735,187
Current-year receipts	-	1,500,000	-	1,500,000
Conditions met - transferred to revenue	-	(5,235,187)	-	(5,235,187)
	-	-	-	-

The specific objective of the MSP is to improve the capacities for good governance and municipal management at the local level, to improve local services to citizens and to enhance local economic development by strengthening local organisations, the standing conference of town and municipalities- central government cooperation.

### LG SETA

Balance unspent at beginning of year	-	384,336	-	384,336
Current-year receipts	1,027,920	948,360	1,027,920	948,360
Conditions met - transferred to revenue	(1,027,920)	(1,332,696)	(1,027,920)	(1,332,696)
	-	-	-	-

The purpose of this discretionary grant is to meet the sector needs as set out in the sector skills plan ( SSP) and the priorities set out in the nNational Skills Development Strategy ( NSDS 111). In doing so, the local government is looking for suitable candidates to partner with to promote the development of the skills in the local government sector.

### Mngazi to Manteku Project

Balance unspent at beginning of year	20,095	20,095	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 13).

### Small scale fishery

Balance unspent at beginning of year	1,011,550	1,011,550	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 13).

### Cutweni

Balance unspent at beginning of year	1,219,989	1,219,989	-	-
	-	-	-	-

Conditions still to be met - remain liabilities (see note 13).

### Local economic development

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>25. Government grants and subsidies (continued)</b>				
Balance unspent at beginning of year	-	2,349,987	-	2,349,987
Current-year receipts	1,027,920	1,300,000	1,027,920	1,300,000
Conditions met - transferred to revenue	(1,027,920)	(3,649,987)	(1,027,920)	(3,649,987)
	-	-	-	-

Beautify open spaces, enhance and uplift the PSJ town. Provision of waste management infrastructure. Provision of road traffic signage and signage targeting beach front. Strengthening of shift work cleaning programme and targeted cleaning in hot spot areas.

### Department of sports, recreation, arts and culture

Balance unspent at beginning of year	-	110,000	-	110,000
Current-year receipts	100,000	100,000	100,000	100,000
Conditions met - transferred to revenue	(100,000)	(210,000)	(100,000)	(210,000)
	-	-	-	-

The purpose of the grant is to maintain existing library facilities, assist in supervising and administration of staff in public libraries, establish library structures, support library awareness programmes and collect revenue from public libraries and deposit into municipal bank accounts..

### Finance Management Grant

Balance unspent at beginning of year	-	49,894	-	49,894
Current-year receipts	1,800,000	1,800,000	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,380,128)	(1,849,894)	(1,380,128)	(1,849,894)
	<b>419,872</b>	-	<b>419,872</b>	-

Conditions still to be met - remain liabilities (see note 13).

Provide explanations of conditions still to be met and other relevant information.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>26. Employee related costs</b>				
Basic	40,139,075	36,245,699	35,911,777	33,715,802
Bonus	43,280	(293,687)	43,280	(293,687)
Medical aid - company contributions	3,828,391	3,048,036	3,828,391	3,048,036
UIF	536,860	481,619	536,860	481,619
Leave pay provision charge	167,322	(22,142)	111,235	(32,530)
Defined contribution plans	5,591,779	4,315,997	5,591,779	4,315,997
Long-service awards	320,000	298,000	320,000	298,000
Benefits paid	-	(85,821)	-	(85,821)
Payroll accrued expenses	-	1,464,907	-	1,464,907
Actuarial gains	(361,644)	(208,179)	(361,644)	(208,179)
Allowances	1,191	-	1,191	-
	<b>50,266,254</b>	<b>45,244,429</b>	<b>45,982,869</b>	<b>42,704,144</b>

### Remuneration of Municipal Manager N Pakade -(Appointed 1 April 2016)

Annual Remuneration	230,833	-	230,833	-
Car Allowance	53,750	-	53,750	-
Contributions to UIF, Medical and Pension Funds	39,613	-	39,613	-
Housing, subsistence and travel allowance	34,319	-	34,349	-
	<b>358,515</b>	-	<b>358,545</b>	-

### Remuneration of the Chief Financial Officer - Mrs P Gwana ( Appointed 1 July 2015)

Annual Remuneration	823,533	-	823,533	-
Car Allowance	183,235	-	183,235	-
Subsistance and travel allowances	77,112	-	77,112	-
Contributions to UIF, Medical and Pension Funds	1,784	-	1,784	-
	<b>1,085,664</b>	-	<b>1,085,664</b>	-

### Remuneration of Corporate Services Manager - Mr F Guleni ( Appointed 1 Sept 2012)

Annual Remuneration	905,531	606,000	905,531	606,000
Car Allowance	208,589	180,000	208,589	180,000
Other allowances	218,817	228,988	218,817	228,988
Subsistance and travel allowances	2,209	2,203	2,209	2,203
	<b>1,335,146</b>	<b>1,017,191</b>	<b>1,335,146</b>	<b>1,017,191</b>

### Remuneration of Community Services Manager - Mr T Mvukuzo ( Appointed 1 Sept 2012)

Annual Remuneration	1,045,285	726,600	1,045,285	726,600
Car Allowance	199,522	172,176	199,522	172,176
Other allowances	125,640	113,836	125,640	113,836
Contributions to UIF, Medical and Pension Funds	-	11,486	-	11,486
Contributions to UIF, KGA, LIFE and SALGABC	2,209	2,203	2,209	2,203
	<b>1,372,656</b>	<b>1,026,301</b>	<b>1,372,656</b>	<b>1,026,301</b>

### Remuneration of Engineering Manager - Mr B Tshitshi ( Appointed 1 Sept 2012)

Annual Remuneration	1,114,950	696,769	1,114,950	696,769
Car Allowance	147,573	140,000	147,573	140,000
Travel and subsistence allowance	61,093	156,832	61,096	156,832
Contributions to UIF, Medical and Pension Funds	2,209	-	2,209	-
Acting allowances	19,070	2,203	19,070	2,203

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>26. Employee related costs (continued)</b>	<b>1,344,895</b>	<b>995,804</b>	<b>1,344,898</b>	<b>995,804</b>
<b>Remuneration of LED Manager - Ms Z Masumpa ( 1 July 2013)</b>				
Annual Remuneration	1,045,558	726,600	1,045,558	726,600
Car Allowance	199,249	172,176	199,249	172,176
Other allowances	-	134,828	-	134,828
Contributions to UIF, KGA life and SALGABC	2,209	2,203	2,209	2,203
	<b>1,247,016</b>	<b>1,035,807</b>	<b>1,247,016</b>	<b>1,035,807</b>

The remuneration of staff is within the upper limit of the SALGA Bargaining Council determinations.

### Remuneration of previous Municipal Manager - Mr N Jakuja (left 28 February 2015)

Annual Remuneration	1,200,000	542,857	1,200,000	542,857
Car Allowance	-	181,676	-	181,676
Contributions to UIF, SALGABC	-	1,189	-	1,189
	<b>1,200,000</b>	<b>725,722</b>	<b>1,200,000</b>	<b>725,722</b>

The remuneration of staff is within the upper limit of the SALGA Bargaining Council determinations.

### Remuneration of previous Municipal Manager- M Sondaba ( Appointed 01 Nov 2015)

Annual Remuneration	-	119,009	-	119,009
Other allowances	-	46,295	-	46,295
UIF contributions	-	1,126	-	1,126
	<b>-</b>	<b>166,430</b>	<b>-</b>	<b>166,430</b>

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>27. Remuneration of councillors and board members</b>				
Councillors	11,084,771	9,788,921	11,084,771	9,788,921
PSJDA board fees	261,092	122,951	-	-
	<b>11,345,863</b>	<b>9,911,872</b>	<b>11,084,771</b>	<b>9,788,921</b>

### **In-kind benefits**

Mayor, Speaker, Chief Whip and committee members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The remuneration of the political office-bearers and councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>27. Remuneration of councillors and board members (continued)</b>				
<b>2016</b>	Annual remuneration	Backpay	Car Allowance	Cellphone Allowance
Mfiki NM	155,156	7,063	51,719	13,788
Nokhanda B	387,104	16,188	133,071	13,788
Langa P	516,139	21,584	172,042	-
Khukula T	412,910	17,267	137,635	-
Cube ZH	155,156	7,064	51,719	13,788
Lobi SJ	170,310	112,733	56,771	13,788
Zweni RM	155,156	7,064	51,719	13,788
Z Maqina	155,156	7,064	51,719	13,788
Sotshongaye ST	155,156	7,064	51,719	13,788
Madini D	155,156	7,064	51,719	13,788
Mhlabeni Z	155,156	7,064	51,719	13,788
Fono KM	170,310	148,169	56,771	13,788
Sophotela	155,156	7,064	51,719	13,788
Mzaza S	213,338	9,713	71,115	13,788
Mtuku NB	170,310	117,498	56,771	13,788
Mncwati EZ	155,156	7,064	51,719	13,788
Tani N	155,156	7,064	51,719	13,788
Mncekisa VN	155,156	7,064	51,719	13,788
Mabovana MS	155,156	7,064	51,719	13,788
Nduku C	213,338	9,713	71,115	13,788
Veni M	155,156	7,064	51,719	13,788
Moni X	175,213	26,126	58,405	13,788
Fono C	155,156	7,064	51,719	13,788
Diko NF	155,156	7,064	51,719	13,788
Bokwe NF	155,156	7,064	51,719	13,788
Tsili M	213,338	9,713	71,115	13,788
Madolo S	155,156	7,064	51,719	13,788
G Tshotho	155,156	7,064	51,719	13,788
Rolobile L	213,338	9,713	71,115	13,788
Ndamase L	213,338	9,713	71,115	13,788
Mbotswa N	155,156	7,064	51,719	13,788
Kotana MPJ	213,838	9,713	71,115	13,788
Mtiki Z	155,156	7,064	51,719	13,788
Ndakayi N	213,338	9,713	71,115	13,788
Nompaka	155,156	7,064	51,719	13,788
Tshitshiliza N	155,156	7,064	51,719	13,788
Nomagedeshe B	170,310	55,538	56,778	13,788
Hobo M	155,156	7,064	51,719	13,788
Tayi HS	155,154	49,895	22,285	5,745
Mvinjela X	56,833	-	-	-
Ncoyini N	46,351	-	-	-
Ndabeni N	39,600	-	-	-
Nyikinya A	60,272	-	-	-
Qupha M	33,080	-	-	-
Zitumane	24,956	-	-	-
	<b>7,651,306</b>	<b>795,460</b>	<b>2,437,871</b>	<b>502,113</b>
				<b>11,386,750</b>

<b>2015</b>	Annual remuneration	Backpay	Car Allowance	Cellphone allowance	Total
Mfiki P	54,129	2,312	18,044	4,596	79,081
Nokhanda B	233,393	13,497	77,800	13,788	338,478
Bokwe F	144,231	9,520	48,078	13,788	215,617
Khukula T	384,619	25,387	128,204	-	538,210
Cube H	144,231	9,520	48,078	13,788	215,617

# Port St Johns Municipality

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## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>27. Remuneration of councillors and board members (continued)</b>				
Diko F	144,231	9,520	48,078	13,788
Fono M	144,231	9,520	48,078	13,788
Langa P	375,554	23,007	128,849	10,341
Mangqo D	326,835	-	108,925	-
Fono C	144,231	9,520	48,078	13,788
Kotana MPJ	148,962	10,722	49,655	13,788
Lobi J	144,231	9,520	48,078	13,788
Mabovana MS	144,231	9,520	48,078	13,788
Madini D	144,231	9,520	48,078	13,788
Madolo S	144,231	9,520	48,078	13,788
Maqina Z	144,231	9,520	48,078	13,788
Mbotshwa N	144,231	9,520	48,078	13,788
Mcekisa VN	144,231	11,208	48,078	13,788
Mhlabeni Z	144,231	9,520	48,078	13,788
Mncwati Z	144,231	9,520	48,078	13,788
Moni X	144,231	9,520	48,078	13,788
Mtiki Z	144,231	9,520	48,078	13,788
Mtuku B	144,231	9,520	48,078	13,788
Mzaza S	198,315	12,190	66,109	13,788
Ndakayi N	198,315	13,090	66,109	13,788
Zweni M	144,231	9,520	48,078	13,788
Ndamase L	198,315	13,090	66,109	13,788
Nompaka T	144,231	9,520	48,078	13,788
Nduku C	198,315	13,090	66,109	13,788
Nomagedesh B	144,231	9,520	48,078	13,788
Rolobile L	228,239	13,090	66,109	13,788
Sophotel MN	144,231	9,520	48,078	13,788
Sotshongaye ST	144,231	9,520	48,078	13,788
Tani N	144,231	9,520	48,078	13,788
Tobela GF	32,725	-	10,909	2,298
Tshitshiliza N	144,231	9,520	48,078	13,788
Tshotho G	144,231	9,520	48,078	13,788
Tsili M	198,315	13,090	66,109	13,788
Veni M	144,231	9,520	48,078	13,788
M Hobo	120,431	7,616	40,145	11,490
HS Tayi	22,225	-	3,204	875
Mvinjela X	51,971	-	-	-
Ncoyini N	47,390	-	-	-
Ndabeni N	23,520	-	-	-
Nyikinya A	36,800	-	-	-
Qupha M	38,265	-	-	-
Swana N	14,676	-	-	-
Zitumane V	32,400	-	-	-
	<b>6,913,715</b>	<b>409,389</b>	<b>2,212,417</b>	<b>498,392</b>
				<b>10,033,913</b>

## 28. Debt impairment

Debt impairment	1,920,263	3,848,026	1,920,263	3,848,026
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## 29. Depreciation and amortisation

Property, plant and equipment	27,676,690	30,207,634	27,567,574	30,112,231
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# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>30. Finance costs</b>				
Finance leases	41,113	25,177	-	-
Current borrowings	(1,862)	84,011	(1,862)	84,011
Capitalised	-	36,200	-	36,200
Other interest paid	1,665,093	3,537,535	770,583	2,304,776
	<b>1,704,344</b>	<b>3,682,923</b>	<b>768,721</b>	<b>2,424,987</b>

Finance charges relate to interest charges on leased equipment. The municipality leases equipment from Laman Finance for which interest charge of R6 246 479 was incurred. In addition interest charges of R24 459 were incurred for the cellphone equipment from Vodacom. The interest rate for Laman finance ranges from 8% to 10.5 % per annum while Vodacom ranges between 8.5% and 10.5% per annum.

### 31. Contracted services

Legal fees	1,661,860	714,015	1,661,860	714,015
Security Cost	1,412,387	1,631,929	1,412,387	1,631,929
Consultancy fees	10,950,106	2,079,575	10,950,106	2,079,575
	<b>14,024,353</b>	<b>4,425,519</b>	<b>14,024,353</b>	<b>4,425,519</b>

### 32. Grants and subsidies paid

<b>Other subsidies</b>				
LED Programmes- ( PSJDA)	-	618,114	6,043,566	5,033,220
Grants paid to ME's	-	-	-	-
Other subsidies	-	618,114	6,043,566	5,033,220

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>33. General expenses</b>				
Accounting fees	228,623	175,219	57,112	-
Advertising	262,079	536,176	178,199	339,968
Auditors remuneration	3,054,830	4,276,554	2,684,176	3,724,663
Bank charges	114,625	117,544	94,618	102,662
Cleaning	5,435	8,499	-	-
Commission paid	139,970	127,584	139,970	127,584
Computer expenses	926	68,825	-	-
Consulting and professional fees	138,868	31,435	-	-
Consumables	107,582	296,964	107,582	296,964
Delivery expenses	31,436	34,246	-	-
Entertainment	243,502	190,874	243,502	190,874
Gifts	34,312	-	-	-
Insurance	1,030,454	1,131,133	981,458	1,091,671
Conferences and seminars	18,238	4,500	-	-
IT expenses	10,279	9,586	-	-
Promotions and sponsorships	-	43,390	-	43,390
Magazines, books and periodicals	83,456	61,291	83,456	61,291
Motor vehicle expenses	778,065	236,257	747,735	181,729
Fuel and oil	691,218	1,367,869	691,218	1,367,869
Postage and courier	311	-	311	-
Printing and stationery	843,491	796,194	814,582	752,465
Royalties and license fees	178,209	194,428	178,209	194,428
Software expenses	-	108,184	-	108,184
Staff welfare	15,010	-	-	-
Subscriptions and membership fees	805,707	9,112	805,707	9,112
Telephone and fax	2,895,716	1,939,251	2,727,188	1,881,038
Training	754,372	630,653	754,372	630,653
Travel - local	4,996,966	5,956,324	4,906,976	5,886,093
Refuse	6,386	-	6,386	-
Assets expensed	-	1,347,138	-	1,347,138
Electricity	2,439,152	2,262,611	2,439,152	2,262,611
Uniforms	391,694	544,429	391,694	544,429
Tourism development	-	56,723	-	-
Penalty charges	980	210,431	-	209,795
Project expenses	231,788	5,520,158	231,788	5,506,658
Staff development	13,534	3,486	-	-
Social responsibility programmes	2,206,892	2,034,644	2,206,892	2,034,644
SDL	522,140	482,731	522,140	482,731
Consumables and beverages	28,137	26,780	28,137	26,780
Billing charges	1,200	-	-	-
Convention bureau	-	6,500	-	6,500
Other expenses	6,518,142	8,598,000	6,439,345	8,527,435
	<b>29,823,725</b>	<b>39,445,723</b>	<b>28,461,905</b>	<b>37,939,359</b>

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015
<b>34. Cash generated from operations</b>				
Surplus	22,950,776	12,694,139	23,864,018	13,835,697
<b>Adjustments for:</b>				
Depreciation and amortisation	27,676,690	30,207,634	27,567,574	30,112,231
Gain on sale of assets and liabilities	17,155	263,526	17,155	263,526
Finance costs - Finance leases	41,113	-	-	-
Debt impairment	1,920,263	3,848,026	1,920,263	3,848,026
Movements in provisions	729,854	629,234	-	-
<b>Changes in working capital:</b>				
Other receivables from non-exchange transactions	2,831	6,786	-	-
Payables from exchange transactions	27,382	245,363	-	-
VAT refund	20,255,261	1,565,557	20,350,148	667,233
Unspent Conditional grant	7,375	68,635	-	-
Effect on operating lease	-	(10,169)	-	-
Other non cash transactions	(16,941,538)	(9,269,061)	(16,941,535)	(9,269,061)
	<b>56,687,162</b>	<b>40,249,670</b>	<b>56,777,623</b>	<b>39,457,652</b>
<b>35. Auditors' remuneration</b>				
Fees	3,054,830	4,276,554	2,684,176	3,724,663
<b>36. Commitments</b>				
<b>Authorised capital expenditure</b>				
<b>Already contracted for but not provided for</b>				
• Property, plant and equipment	52,781,071	49,583,444	52,781,071	49,583,444
<b>Total capital commitments</b>				
Already contracted for but not provided for	52,781,071	-	52,781,071	49,583,444
<b>Authorised operational expenditure</b>				
<b>Already contracted for but not provided for</b>				
• Imani business advisory services	180,048	-	-	-
• Mathembu development	19,950	-	-	-
	<b>199,998</b>	-	-	-
<b>Total operational commitments</b>				
Already contracted for but not provided for	199,998	-	-	-
This committed expenditure relates to access roads and will be financed mainly by the Municipal Infrastructure grant..				
<b>Operating leases - as lessee (expense)</b>				
<b>Minimum lease payments due</b>				
- within one year	215,124	147,791	148,434	136,145
- in second to fifth year inclusive	1,034,972	678,806	968,283	678,806
- later than five years	5,708,950	6,451,893	5,708,950	6,451,893
	<b>6,959,046</b>	<b>7,278,490</b>	<b>6,825,667</b>	<b>7,266,844</b>

Operating lease payments represent rentals payable by the economic entity for certain of its equipment and internet services. The municipality entered into an agreement with Transnet for long term land lease of land over a period of 30 years . No contingent rent is payable.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### **37. Contingencies**

#### **Asset**

PSJM and M.T Mfecane is the defendant. This is an interdict against Mr. Mfecane to stop building on the property of the Municipality. The estimated cost to municipality is around R150 000. The matter is set for hearing on the 20th of October and in good merit.

PSJM and OceanView - The municipality instituted action against Mr Mugwanya for arrear rates in sum of R170 000 Waiting the dies for the entering an appearance to defend to lapse in order to take further steps and in good merit.

PSJM and Coastal properties the municipality instituted action against Coastal properties Pty Ltd in the sum of R225 00. Default judgment obtained and has proceeded with a warrant of execution. Waiting for trial date and is in good merit.

#### Port St Johns Taxi Association/PSJ

The municipality instituted action against Port St Johns Taxi Owners Primary Co-operative Ltd for arrear rates. Waiting for a court appearance to defend the lapse in order to take further steps. Estimate R50 000.

#### **Liability**

Nozipho F Bokwe vs PSJM - A civil action brought by the opposition to nullify the resolution of the council to reinstate the employees that have been dismissed. Estimated cost of finalisation is about R200 000. Default judgment obtained and has proceeded with a warrant of execution. Waiting for trial date and is in good merit.

Zamani Civils vs PSJM Civil claim allegedly suffered as a result of the municipality terminating the contract for the upgrading of CBD and estimated cost is R11 000 000. Waiting for trial date. Timing dependant on trial date.

Bodlani vs PSJM Civil claim for the alleged assault of Mr Bodlani at the second Beach by municipal employees and estimated cost is R650 000. Waiting for a trial date, the merit favour the municipality.

Ncedile Jakuja vs PSJ Municipality. Case handled in Mthatha High Court . Estimated cost R30 000. It is not likely that the matter will be pursued to the finality by the look of things.

Vapi and others/PSJ Municipality. The matter was postponed sine die ( without assigning a day for another meeting) and the court order that the interviews can continue however provided certain conditions are met. Estimated cost R300 000. Waiting for a date for another meeting and is moderate.

Kwane vs PSJ. The municipality received a bill of cost from Mtsabe Attorneys for Mr Jakuja cost which was set down for taxation on the 11th of March 2016 which was postponed due attorney requesting certain information as the municipality believe they can not proof his cost. Estimated cost R300 000. The trial was postponed and the case is moderate.

Zayadwa Ndabeni and others vs PSJ Municipality. Malicious proceeding. Estimated cost R300 000

Nogumla vs PSJ Municipality . The municipality received summons wherein plaintiff claimed damages for where the individuals were attacked by sharks. Estimate R400 000

Mfecane vs PSJ Municipality . Civil claim for alleged assault of Mr Mfecane by the municipality traffic officer and total estimate amounts to R159 000.

A contingent liability exists in respect of potential interest chargeably by South African Revenue Services on the declaration of output tax on historical grants received over the last 5 year period.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand	Economic entity		Controlling entity	
	2016	2015	2016	2015

### **38. Related parties**

#### **Relationships**

Accounting Officer : Mr Pakade	Refer to employee related costs
Chief Finance Officer	Refer to employee related costs
Corporate services manager	Refer to employee related costs
Community services manager	Refer to employee related costs
Engineering manager	Refer to employee related costs
Local Economic Development Manager	Refer to employee related costs
Councillors	Refer to remuneration of councillors

#### **Related party transactions**

Loan from OR Tambo	8,741,162	8,741,162
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### **39. Prior period errors**

The prior year has been amended to account for prior period errors

Below is a summary of the total effect the prior period errors, changes in accounting policies and reclassifications of the comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amount involved.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

### 39. Prior period errors (continued)

Statement of financial performance for the year ended  
2016

	Revenue	Prior period error	Reclassified	Restated balance
	Balance as previously reported			
Service charges	726,277	-	-	726,277
Rental income	58,056	-	-	58,056
Interest received - trading	2,550,539	-	-	2,550,539
Interest received - investment	808,187	-	-	808,187
Other Income	257,003	26,453	9,000	292,456
Property rates	3,962,250	-	-	3,962,250
Government grants and subsidies	113,734,312	29,801,183	-	143,535,495
Public contributions and donations	-	723,495	1,000	724,495
Revenue from non exchange transactions	-	-	-	-
Fines, penalties and forfeits	285,650	-	-	285,650
Licences and permit	24,267	-	-	24,267
Total revenue	122,406,541	30,551,131	10,000	152,967,672
 <b>Expenditure</b>				
Employee related costs	49,687,869	(2,579,923)	(4,403,801)	42,704,145
Remuneration of councillors	10,000,065	(322,620)	111,477	9,788,922
Debt impairment	3,060,086	787,941	-	3,848,027
Depreciation and amortisation	29,789,383	322,848	-	30,112,231
Finance costs	10,476,402	(8,051,415)	-	2,424,987
Repairs and maintenance	2,676,943	(457,215)	65,728	2,285,456
Contracted services	1,709,749	(467,673)	3,183,443	4,425,519
Grants and subsidies paid	5,033,220	-	-	5,033,220
General expenses	25,878,616	4,016,861	8,043,882	37,939,359
Operating lease rentals	2,116,223	(1,465,790)	(343,848)	306,585
Loss on disposal of assets	-	263,527	-	263,527
Total expenditure	140,428,556	(7,953,459)	6,656,881	139,131,978
 Operating surplus / (deficit)	(18,022,015)	38,504,589	(6,646,881)	13,835,693
Surplus / (deficit) for the year	(18,022,015)	38,504,589	(6,646,881)	13,835,693

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

### 39. Prior period errors (continued)

#### Statement of Financial Position as at 30 June 2016

	Balance as previously reported	Prior period error	Reclassified	Restated balance
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	9,015,613	(7,494)	-	9,008,119
Receivables from exchange transactions	1,544,820	(881,674)	-	663,146
Receivables from non-exchange transactions	1,716,068	45,835	-	1,761,903
VAT receivable	28,116,815	(1,844,351)	(6,646,881)	19,625,583
Other debtors	-	531,385	-	531,385
Inventories	520,855	-	-	520,855
Total current assets	40,914,171	(2,156,299)	(6,646,881)	32,110,991
<b>Non-current Assets</b>				
Investment property	11,461,003	-	-	11,461,003
Property, plant and equipment	342,602,266	14,093,609	-	356,695,875
Total non-current assets	354,063,269	14,093,609	-	368,156,878
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Payables from exchange transactions	20,976,089	3,659,921	(54,999)	24,581,011
Finance lease obligation	11,526,747	-	-	11,526,747
Unspent conditional grants and receipts	29,807,182	(29,801,181)	(6,001)	-
Employee benefit obligation	509,000	-	-	509,000
Consumer deposit	-	-	61,000	61,000
Bank Overdraft	45,125	-	-	45,125
Total current liabilities	62,864,143	(26,141,260)	-	36,722,883
<b>Non-current Liabilities</b>				
Provisions	4,801,824	-	-	4,801,824
Employee benefit obligation	1,472,000	-	-	1,472,000
Finance lease obligation	100,244	-	-	100,244
Operating lease liability	1,597,514	-	-	1,597,514
Total non-current liabilities	7,971,582	-	-	7,971,582
<b>Net Assets</b>				
Accumulated surplus - Opening balance	342,163,730	429,019	-	342,592,749
Total net assets	342,163,730	429,019	-	342,592,749
<b>Accumulated surplus</b>				
Other Income - Donations on assets and commissions recognised	-	-	-	(26,453)
Government Grants and subsidies- MIG, FMG, MSIG, EPWP, MISP grant recognised	-	-	-	(29,801,183)

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

### 39. Prior period errors (continued)

Employee related costs- clearing misallocations in payroll costs	-	-	-	(2,579,923)
Public Contributions and donations- Donations on assets not recognised	-	-	-	(723,495)
Remuneration of councillors- clearing misallocations in payroll costs	-	-	-	(322,620)
Debt Impairment- Recalculated debt impairment	-	-	-	787,941
Depreciation recalculated	-	-	-	322,848
Finance cost	-	-	-	(8,051,415)
Repairs and maintenance- reclassification of assets	-	-	-	(457,215)
Contracted services	-	-	-	(467,673)
General expenses- Recognising expenses not accrued for	-	-	-	4,016,861
Operating lease rentals	-	-	-	(1,465,790)
Profit or loss on sale of assets	-	-	-	263,527
SARS assessments during the year not recovered	-	-	-	6,646,881
	-	-	-	<b>(31,857,709)</b>

### Other income

Assets life guard equipment amounting to **R723 495** were donated to the municipality in the 2014/15 financial period. These assets were omitted from the books resulting in an overall understatement of assets and donations by the said amount.

The municipality acts as a collection agent for legal wise, Sanlam Sky as well as Old Mutual. In return it gets commission. This commission was incorrectly classified under employee costs. This error of classification understated employee costs, remuneration of councillors as well as commission by an overall amount of **R33 757**

A claim paid to a deceased employee beneficiary amounting to **R 7 340** was erroneously included under claims received resulting in overstatement of claims received and employee related costs.

Subsistence allowance amounting to **R10 000** was incorrectly classified under other income. This understated general expenses and other income by **R10 000**

### Government grants and subsidies

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the grant income amount and overstatement of unspent grant amount by **R29 801 183**

### Employee related cost

General expenses amounting to **R4 403 801** were incorrectly classified under employee related costs. This resulted in the overstatement of the employee costs with **R4 403 801** and understatement of the general expenses with the same amount.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand

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### **39. Prior period errors (continued)**

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee cost instead of correctly under remuneration of councillors.. This resulted in in overstatement of employee cost and understatement of remuneration of councillors.

Bonus provision was understated by **R7 917** whilst leave provision was overstated by **R32 529**. These misstatements were as a result of incorrectly calculating respective provisions.

Medical aid expenses, Pension contributions, UIF were inaccurately provided for resulting in an overall overstatement of **R300 717** under employee related costs.

Salaries were overstated by **R460 121** due to misallocation between remuneration of councillors as well as employee costs, commission received and claims received.

#### **Remuneration of councillors**

An amount of **R111 477** relating to councillors remuneration was incorrectly classified under employee costs instead of correctly under remuneration of councillors. This resulted in overstatement of the employee cost and understatement of remuneration of councillors.

Salaries were overstated by **R178 196** due to misallocations between remuneration of councillors and employee costs, telephone cost and commission received.

In addition remuneration of councillors was overstated by **R500 816.51** which related to travelling and subsistence. This resulted in misstatements in both accounts by the same amount.

#### **Finance costs**

In addition, finance costs amounting to **R8 051 415** were incorrectly expensed instead of capitalising under projects constructed internally. This resulted in mistatement on both balances

#### **Debt Impairment**

Debt impairment was incorrectly calculated resulting in understatement of debt impairment expense by **R787 941** i.e rates overstated by **R93 733** whilst refuse understated by **R881 674**

#### **Depreciation**

Depreciation expense was incorrectly calculated resulting in an understatement of depreciation expense and the related accumulated depreciation. The error amounted to **R1 021 983**.

In addition an adjustment of **R699 135** has been done to take into account capitalisation of internal projects as well as depreciation incorrectly calculated.

#### **Repairs and maintenance**

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand

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### **39. Prior period errors (continued)**

Some expenditure line items were classified incorrectly under operating lease rentals. These amounts included office and traffic equipment . This was reclassified to other repairs and maintenance **R65 728**.

Assets amounting to **R53 066** were incorrectly allocated under repairs and maintenance account resulting in overstatement of the latter account and understatement of assets.

Repairs amounting to **R350 008** were incompletely recorded resulting in understatement of the repairs expenses and accruals.

Expenses amounting to **R480 590** were erroneously recorded under repairs and maintenance resulting in an overstatement of the latter account as well as accruals.

Repairs amounting to **R21 348** were recording twice resulting in overstatement of the repairs expenses and accruals.

#### **Contracted services**

Some contracted services line items were incorrectly classified as general expenses. These amounts related to consultants and professional fees and legal fees. These items were reclassified to contracted services **R3 183 443**  
Contracted services amounting to **R56 948** were incompletely recorded resulting in understatement of the latter expenses and accruals

Expenses amounting to **R245 899** were erroneously recorded under contracted services resulting in an overstatement of the latter account as well as accruals.

Expenses amounting to **R770 520** were recorded twice under contracted services resulting in an overstatement of the latter account as well accruals.

#### **General Expenses**

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand

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### **39. Prior period errors (continued)**

Some expenditure line items were classified incorrectly under general expenditure. These amounts include legal fees , consultants and professional fees. This was reclassified to contracted services. (**R3 183 443**)

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in an overstatement of the VAT receivable and an understatement of general expenses with the same amount

General expenses amounting to **R4 292 324** were incorrectly classified under employee related cost. This resulted in an overstatement of the employee cost with **R4 403 801** and understatement of remuneration of councillors with **R111 477**.

General expenses amounting to **R278 119** were incorrectly classified under operating lease rentals. These resulted in the overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses by the same amount.

General expenses amounting to **R10 000** were incorrectly classified under other income. This resulted in understatement of other income with **R10 000** and understatement of general expenses with the same amount.

Up and above the misclassifications above the following additional misstatements are summarised below.

<b>Description</b>	<b>Mistatement</b>
Duplicated expenses	-498 728
Expenses incorrectly accounted for	-1 278 943
Expenses omitted	4 518 986
Payroll expenses misallocated under general expenses	- 38 909
VAT Incorrectly accounted for	<u>22 050</u>
<b>Total</b>	<b>2 724 455</b>

In addition travelling and subsistence were incorrectly recorded under employee costs, whilst some expenses related to projects were not capitalised. This resulted in a mistatement of **R1 292 406** of general expenditure.

### **Operating lease rentals**

General expenses amounting to **R278 119** were incorrectly classified under operating lease rentals. This resulted in overstatement of the operating lease rentals cost with **R278 119** and understatement of general expenses with the same amount.

An expense was duplicated when recording resulting in overstatement of operating lease rentals and accruals by an amount of **R 1 285 781**.

Expenses amounting to **R180 009** were recorded twice under operating lease rentals resulting in an overstatement of the latter account as well as accruals.

### **Profit or loss on sale of asset**

No profit or loss was calculated on the assets that were disposed in the 2014/15 financial year. This resulted in overall misstatements in loss on disposal, assets and accumulated surplus of **R263 527**

### **Statement of Financial Position**

#### **Cash and cash equivalents**

Petty cash expenses incurred in the 2014/15 financial year were omitted erroneously in the 2015 financial year and consequently the petty cash balance and related expenses were understated by **R7 494**.

#### **Receivables from exchange transactions**

Refuse debtors debt impairment amounts reported as at the 30th of June 2015 were incorrectly calculated. This resulted in the understatement of the debt expense by **R881 674** and overstatement of refuse receivables by the same amount.

# **Port St Johns Municipality**

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## **Notes to the Consolidated Annual Financial Statements**

Figures in Rand

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### **39. Prior period errors (continued)**

#### **Receivables from non exchange transactions**

Rates debtors debt impairment amounts reported as at 30th of June 2015 were incorrectly calculated. This resulted in the overstatement of debt impairment expense by **R93 733** and overstatement of rates of receivables by the same amount.

Rates debtors balance were erroneously debited with a VAT related transaction. This overstated the debtors balance with **R47 897**.

#### **VAT Receivable**

General expenses amounting to **R6 646 881** were incorrectly classified under VAT receivables. This resulted in overstatement of the VAT receivable and understatement of general expenses with the same amount.

For all expenses incurred but initially not accrued for, VAT input was also accounted for in recognition of the expenses and respective accruals. The VAT input adjustment amounted to **R10 292 246**

In addition there was an overall misstatement of Creditors VAT Provisional by an amount of **R12 136 597**. This amount was also mistating the overall accumulated surplus by the same amount.

#### **Other Debtors**

Proceeds from assets disposed in the 2014/15 financial year were not yet received as at the end of that financial period. The amount receivable was **R531 385**. Omission of the receivable also resulted in incorrectly accounting for loss on disposal.

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

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### 39. Prior period errors (continued)

#### Payables from exchange transactions

Unallocated deposits amounting to **R6 000** were erroneously classified under unspent conditional grants instead of under payables from exchange transaction. This resulted in overstatement of the former balance whilst the latter balance was understated.

Consumer deposits amounting to **R61 000** were erroneously classified under payables from exchange transactions instead of consumer deposits. This resulted in overstatement of the former balance whilst the latter balance was understated.

#### Accruals

In the 2014/15 financial year there were various misstatements to the accruals as summarised below.

Description	Misstatement
Accruals incorrectly accounted for	1 197 186.41
Accruals not raised completely	-540 425.03
Duplicated accruals	547 792.63
Invalid accruals incorrectly raised	-743 413.86
Payroll related expenses	<u>639 295.27</u>
	<b>1 100 435.42</b>

#### Creditors control

Batches of invoices totalling **R2 879 117** were not accounted for at year end (error of omission). This understated the related expenditure account as well as the creditors control account.

An amount of **R587 304** was erroneously included under creditors. This resulted in a misstatement of creditors and related expenditure with the same amount

#### Provision for bonus and leave

Bonus provision was understated by **R7 917** whilst leave provision was understated by **R4 304**. These misstatements were as a result of incorrectly calculating the respective provisions.

#### Retention

Retention cost for a number of projects were completely omitted from the system. The retention amount totalled **R4 897 056**. This omission resulted in understatement of the retention payable as well as the project cost.

In addition retentions were overstated by **R3 665 850** due to incorrectly accounting for retentions on Assets under construction. This resulted in mistatement of Property, plant and equipment by the same amount.

#### Salary Suspense Account

As at year end there were payroll related transactions that had been underpaid to third parties or in some instances employees. These amounts were incorrectly accounted for under payroll related cost. The overall misstatement is **R59 731**

#### Unspent Conditional grants and receipts.

Expenses incurred through grant funding were all not completely included in grant income recognition. This resulted in understatement of the Grant income amount and overstatement of unspent grant by **R29 801 183**.

Unallocated deposits amounting **R6 000** were erroneously classified under unspent conditional grants instead of under payables from exchange transactions. This resulted in overstatement of the former balance whilst the latter balance was understated.

#### Property, plant and Equipment

In the 2014-2015 financial year there were various misstatements to the property, plant and equipment as summarised below:

# Port St Johns Municipality

Consolidated Annual Financial Statements for the year ended 30 June, 2016

## Notes to the Consolidated Annual Financial Statements

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### 39. Prior period errors (continued)

#### Description

Correcting depreciation incorrectly calculated	-	-	-	(716,033)
Damaged laptop not written off	-	-	-	(5,020)
Internal projects not capitalised	-	-	-	6,599,308
WIP register not reconciled to ledger	-	-	-	(1,350,737)
Retentions incorrectly accounted for	-	-	-	1,257,108
Assets incorrectly recorded under repairs	-	-	-	50,615
Gate not accrued for	-	-	-	18,150
Plant and equipment incorrectly accounted for	-	-	-	818,856
Assets incorrectly recorded under repairs	-	-	-	-
VAT erroneously included in Assets	-	-	-	2,160,112
Donated Assets not capitalised	-	-	-	879,699
Infrastructure WIP incorrectly accounted for	-	-	-	3,072,596
Depreciation wrongly calculated	-	-	-	1,308,957
				<b>14,093,611</b>

### 40. Risk management

#### Financial risk management

The economic entity's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

#### Liquidity risk

The economic entity's risk to liquidity is a result of the funds available to cover future commitments. The economic entity manages liquidity risk through an ongoing review of future commitments and credit facilities.

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

Financial instrument	Economic entity - 2016	Economic entity - 2015	Controlling entity - 2016	Controlling entity - 2015
Receivables from exchange transactions	1,519,087	1,194,531	1,519,087	1,194,531
Receivables from non exchange transactions	3,478,859	1,764,734	3,478,859	1,761,903
Cash and cash equivalents	37,281,190	9,692,341	36,857,627	9,008,119
Payables from exchange transactions	21,929,622	26,316,151	20,238,324	24,581,009
Finance lease obligation	10,820,093	12,005,049	10,533,505	11,626,991
Provisions	8,787,882	8,161,678	5,094,735	4,801,824

#### Market risk

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### **40. Risk management (continued)**

#### **Interest rate risk**

Interest rate risk is the risk that value of a financial instrument will fluctuate owing to changes in market interest rates. The municipality's level of borrowing and consequently the debts servicing costs are closely monitored by and controlled by the EXCO having regard to the prevailing and projected interest rates and the municipality's capacity to service such debt from future earnings

### **41. Going concern**

The consolidated annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality

### **42. Events after the reporting date**

There are no material adjusting and non adjusting events after the reporting date.

### **43. Unauthorised expenditure**

Opening balance	36,180,562	32,455,887	36,180,562	32,455,887
Unauthorised expenditure incurred	-	3,724,675	-	3,724,675
	<b>36,180,562</b>	<b>36,180,562</b>	<b>36,180,562</b>	<b>36,180,562</b>

Unauthorised expenditure is due to the expenditure incurred above authorised budget.

### **44. Fruitless and wasteful expenditure**

Opening Balance	17,384,090	15,323,525	13,896,288	12,375,334
PAYE,SDL, and UIF penalties and interest	524,583	2,059,870	366,355	1,520,954
Interest Eskom	4,151	-	4,151	-
Interest on Telkom	34,250	695	4,485	-
Interest on Auditor General	31,898	-	27,391	-
Laman Interest	2,429,038	-	2,429,038	-
	<b>20,408,010</b>	<b>17,384,090</b>	<b>16,727,708</b>	<b>13,896,288</b>

### **45. Irregular expenditure**

Opening balance	69,267,189	37,998,125	63,550,600	33,054,321
Add: Irregular Expenditure - current year	18,240,560	31,269,064	18,206,406	30,496,279
Councillors remuneration not paid in accordance with the government gazette	44,905	-	44,905	-
	<b>87,552,654</b>	<b>69,267,189</b>	<b>81,801,911</b>	<b>63,550,600</b>

#### **Details of irregular expenditure – current year**

#### **Details of irregular expenditure condoned**

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## Notes to the Consolidated Annual Financial Statements

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### 45. Irregular expenditure (continued)

#### Analysis of the expenditure

Irregular expenditure relates to expenditure incurred contray to supply chain management policy and regulations. There are currently no cases under investigation.

### 47. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	1,231,180	990,013	1,231,180	990,013
Current year subscription / fee	678,377	776,645	678,377	776,645
Amount paid - current year	(1,329,451)	(535,478)	(1,329,451)	(535,478)
	<b>580,106</b>	<b>1,231,180</b>	<b>580,106</b>	<b>1,231,180</b>

#### Audit fees

Opening balance	2,806,275	1,969,630	2,806,275	1,969,630
Current year subscription / fee	4,301,290	4,695,057	4,301,290	4,695,057
Amount paid - current year	(4,353,375)	(3,858,412)	(4,353,375)	(3,858,412)
	<b>2,754,190</b>	<b>2,806,275</b>	<b>2,754,190</b>	<b>2,806,275</b>

#### PAYE , UIF and SDL

Opening balance	239,738	639,045	239,738	639,045
Current year subscription / fee	9,065,486	7,761,158	9,065,486	7,761,158
Amount paid - current year	(9,386,660)	(8,160,465)	(9,386,660)	(8,160,465)
	<b>(81,436)</b>	<b>239,738</b>	<b>(81,436)</b>	<b>239,738</b>

#### Pension and medical aid deductions

Opening balance	157,554	-	157,554	-
Current year subscription / fee	10,377,417	8,375,030	10,377,417	8,375,030
Amount paid - current year	(10,496,788)	(8,217,476)	(10,496,788)	(8,217,476)
	<b>38,183</b>	<b>157,554</b>	<b>38,183</b>	<b>157,554</b>

#### VAT

VAT receivable	439,599	14,571,230	5,399,065	19,625,583
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VAT output payables and VAT input receivables are shown in note 9.

# Port St Johns Municipality

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## Notes to the Consolidated Annual Financial Statements

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### 47. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Council. The expenses incurred as listed hereunder have not been condoned.

##### **Sole Provider**

Shesha- The books are supplied by Shesha which is the bookshop made available by Mancosa  
 Shesha- The books are supplied by Shesha books which is the bookshop made available by Mancosa  
 Post Office- is the only supplier for postage stamps

##### **Emergency**

Ntaba River Logde - othe places were fully booked  
 Karibu Guest house- Office of the speaker was informed late about a meeting and SCM offices were closed.

Review, edit and reprinting of Tourism booklet-one supplier responded  
 Wild Coast Map only the nearest dealer  
 Accomodation- emergency  
 Advertising and laptop one dealer and emergency  
 Exceptional Case  
 Karibu Guest house- Other places were fully booked  
 Karibu Guest House- Other places were fully booked  
 Wild Cost Sun- The Mayor was booked to wild coast sun by OR Tambo Municipality to attend startegic planning sessio, it was convinient to book his body guard and driver at the same place.  
 Blue Chip Security Services - advertised the tender of training for six security personnel twice upon the opening of bids there was no response then SCM unit requested the Municipal Manager to request the quotation.

Mosuli Guest House- Other Places were fully booked  
 Mpekwini Beach Resort- Other places were fully booked  
 Ultra Community Radio- Only radio station which can provide the municipality with time slot for tradional event.  
 Ntaba River- Other places were fully booked  
 Top House BnB- Other places were fully booked  
 Queens- Other places were fully booked  
 Sleep and dream- Other places were fully booked  
 Riverside lodge- Other places were fully booked  
 Hotel Savoy- Other places were fully booked  
 Dans Country Lodge- other places were fully booked  
 Seida Towing- Towing of a municipal vehicle  
 Ikwezi Computer- purchasing of repair part from Ikwezi because other suppliers will not fit  
 NPM Goemetric- Only one local land savouy responded to the request correct quote  
 Ntaba River lodge- Other places were fully booked  
 Selele Travel- Other places were fully booked  
 Ntaba River- Other places were fully booked  
 Ntaba River - Other places were fully booked

-	-	18,720	-
-	-	5,363	-
-	-	3,600	-
-	-	2,600	-
-	-	2,800	-
-	-	20,000	-
-	-	8,265	-
-	-	9,000	-
-	-	30,811	-
-	-	-	-
-	-	2,500	-
-	-	5,080	-
-	-	11,670	-
-	-	28,000	-
-	-	11,480	-
-	-	2,470	-
-	-	4,050	-
-	-	2,600	-
-	-	3,580	-
-	-	2,900	-
-	-	6,120	-
-	-	2,130	-
-	-	5,045	-
-	-	23,040	-
-	-	3,500	-
-	-	27,355	-
-	-	5,130	-
-	-	8,000	-
-	-	5,390	-
-	-	2,832	-
-	-	3,280	-
-	-	267,311	-

# **Port St Johns Municipality**

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## **Notes to the Consolidated Annual Financial Statements**

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### **47. Additional disclosure in terms of Municipal Finance Management Act (continued)**

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### **48. Budget differences**

#### **Material differences between budget and actual amounts**

- a) Accept as immaterial.
- b) Projection was that all grants will be spent 100%.
- c) It was a donation from Ikwezi computers, one one of our suppliers for fax machine.
- d) Accept as immaterial.
- e) Projection was made based on property developments of PSJ which were expected to result in increase in our revenue.
- f) Projection was made with the expectation that traffic department will be fully functional.
- g) We have budgeted for final settlement of non returning councillors however bargaining council will make payment.
- h) Through debt assesment on our debtors and it was identified as cumulating and projected that there will be more doubtful debt impairment.
- i) Due to availability of cash, we have cut on other costs of repairs.
- j) Due to availability of cash we have cut on other costs.
- k) Due to claims by Laman to the municipality we have made more provisions for finance costs.
- l) Other contracts were awarded close to year end.
- m) PSJDA has submitted a request for adjustment in their budget for payment of SARS.
- n) Municipality has plan to increase their rentals of machines since other deprtments do not have working machines.
- o) Projection was made based on past experience, expecting debtors to pay
- p) An amount of VAT returns was budgeted under government grants
- q) There were vacant posts that had been budgeted for but remained vacant.